VOL. 67 No. 6 *December* 1955

THE CANADIAN CHARTERED ACCOUNTANT

ACCOUNTING RESEARCH • THE TAX REVIEW • CURRENT READING
ADMINISTRATIVE ACCOUNTING • STUDENTS DEPARTMENT

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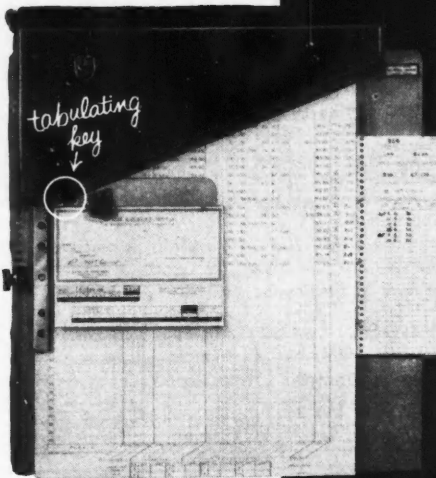
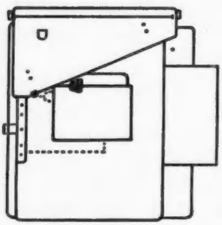
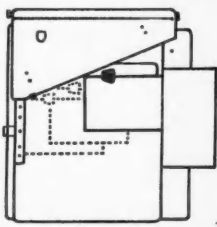


POSITION 1: *Write name on small, neat new cheque. Name is duplicated on journal underneath.*



PRESS TABULATING KEY—
CHEQUE MOVES TO:

POSITION 2: *Write earnings on cheque. Earnings are copied on journal and earnings record in same line as name.*



PRESS TABULATING KEY—
CHEQUE MOVES TO:

POSITION 3: *Write deductions and net pay on cheque. Figures are copied on to journal and earnings record in same line as earnings.*

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THE CANADIAN

CHARTERED ACCOUNTANT

VOLUME 67, NO. 6, DECEMBER 1955

ARTICLES

DEPARTMENTS

MONTHLY FEATURES

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IN THIS ISSUE

SENATOR H. deM. MOLSON, C.A.

In recent years, chartered accountants as a professional group have become far more self-critical. Their self-analysis is extending beyond a close scrutiny of educational standards and ethics into the realm of creative thinking to see what contribution they can make to top management in the way of advisory services and other extras, which would be of benefit to everyone.

Up to now, the profession has underplayed its competence in this field, says Senator Molson, but there would seem to be no reason why such special management studies as corporate analysis and organizational structure, the evaluation of executive functions, office job evaluation, compensation methods and incentive plans, pension and profit sharing plans and many more of the same type should not be offered to almost every client.

Senator Molson, in his article "New Fields for the Chartered Accountant", has been guided by his many years of experience with Molson's Brewery Limited as assistant secretary-treasurer, secretary, vice-president, and since 1953 president of the company. In addition he is a director of several companies and a governor of McGill University. Honourable Hartland Molson is a member of the Institute of Chartered Accountants of Quebec and a Fellow of the Chartered Institute of Secretaries.

G. E. F. SMITH, F.C.A.

In today's forward-looking world, an appreciative backward glance is something that all too few people take time to enjoy. It is therefore a pleasure to present "Confessions of a Life Member" by G. E. F. Smith who, after more than 50 years as a practising chartered accountant, still finds that a good head for figures in no way dims the eye for the lighter side of life.

G. E. F. Smith is a member of the Institute of Chartered Accountants of Ontario, having passed his final examination in 1904. He has served on the Council of that Institute and in 1934 was elected a Fellow for distinguished services to the profession. He is still active today in the firm of Smith, Metherell, Jackson & Webb of Hamilton, which he helped to found.

J. D. CAMPBELL, C.A. and W. D. GAINER

Those who read the interesting article "Canadian Business in 1954" by Professors J. D. Campbell and W. D. Gainer in the September issue may have noticed that the authors were not mentioned in this column. Information about them was not available at the time when the article appeared.

J. D. Campbell is Professor of Accounting at the University of Alberta. Articled to Clarkson, Gordon & Co., he became a member of the Institute of Chartered Accountants of Ontario in 1938. Before joining the staff of the University of Alberta, he was with the Income Tax Department at Ottawa. W. D. Gainer is a graduate in Economy of the University of Alberta and Iowa State College. He is currently associated with the Uni-

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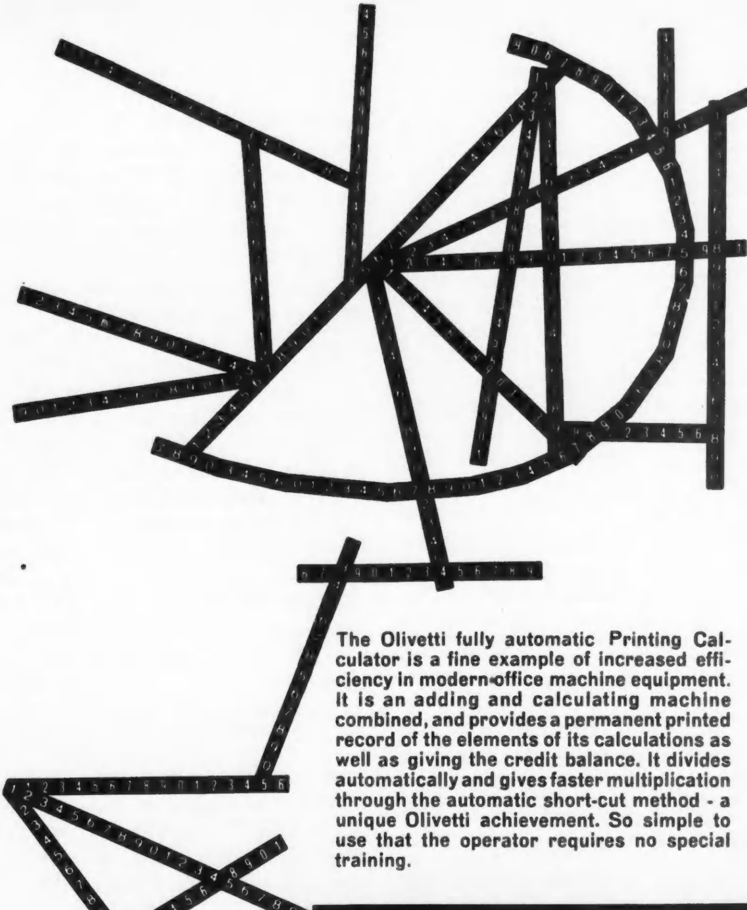

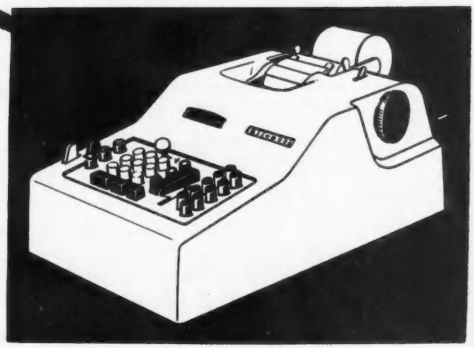

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versity of Alberta as Associate Professor of Political Economy. Professor Gainer is a member of the Political Science Association and the American Finance Association.

J. E. SEYBOLD, C.A.

An outstanding characteristic of the stock brokerage business is the strict supervision to which it is subject. No stockbroker can afford to overlook any of the rules and regulations determined by the governing committees of Canada's seven stock exchanges, because of severe penalties for infractions. Large sums of money and securities belonging to other people are often entrusted to the care of the stockbroker and it is extremely important for brokerage houses to retain the confidence of the public.

In his article "Audit of Stockbrokers' Accounts" J. E. Seybold discusses the procedures necessary to comply with the audit requirements. The author is a graduate of McGill University and since 1938 has been with P. S. Ross & Sons, Montreal. He was admitted to partnership in 1948.

DEREK L. JOHNSTON, C.A.

If you are unfamiliar with the early history of accounting, it may come as a surprise to read in Derek L. Johnston's article "Historical Sidelights on Accounting" that 3500-year-old tablets belonging to the ancient Greeks record writing pertaining to the keeping of accounts.

It has been assumed too often, says the author, that accountancy is one of the youngest of professions, but Mr. Johnston claims that, contrary to this belief, the origins of accountancy are of great antiquity. In this he is not alone. A booklet published recently in England called "The Earliest Greeks" has recorded the fascinating story of the tablets and the decipherment of their writings. In his conclusion the author of the book has written – "Even from the dull pages of an account book, it is possible to glean much valuable knowledge about the earliest flowering of our European civilization".

Derek L. Johnston has been a student of accounting history for many years and his article "Was Shakespeare an Accountant?", which first appeared in this journal in November 1954, has been republished in numerous magazines. The author was born in British Columbia but received part of his education in England. He was admitted an Associate of the Scottish Institute in 1937 and has been closely connected with the Institute of Chartered Accountants of British Columbia since becoming a member of that Institute in 1947. In 1954 he was elected president of the Institute after having served on its Council for a number of years.

EDITORIAL

With the realization that research has become a dominant factor in many associations and business concerns, this month's editorial "Emphasis on Research" by J. Grant Glassco will be of special interest. The inference that might be drawn from the editorial would seem to be no longer "whether" but "how much" and "in what direction". Canadian business is becoming more and more research minded in terms of new processes, new products, market expansion and development. Anything that can be done towards improvement in the art of accounting or assisting the lone practitioner in his problems will also be of help to businesses, both large and small. Mr. Glassco is immediate past president of the C.I.C.A.

Let's Talk

A manufacturer has three subsidiary plants in different locations, each of which purchases a great number of materials for production. There was need for an integrated accounting procedure covering the purchasing cycle which would guarantee control, accuracy, and efficiency with proper liaison between the home office and the subsidiaries. A Moore system was installed which centralizes purchasing control in the home office and permits each plant to control its own accounting functions.

The System

Five different operations integrated in one over-all system give the manufacturer efficiency and control in managing purchases. These are the five operations:

1. Stores Department Operation The department requisitions and distributes stockroom items; schedules delivery and use; transmits requisitions to Purchasing. A 3-part Moore Manifold book form is used. Part 1 posts to a Kardex inventory control. Part 2 is kept in a numerical file; part 3 authorizes withdrawal of items.

The Moore book form simplifies requisitioning

2. Purchasing requisitions A 4-part Moore Manifold book form is used by Stores to requisition inventory that is low. Part 1 goes to Home Office Purchasing. Part 2 is kept in a numerical file of the plant's Purchasing Dept.; part 3 stays in a numerical file. The requisitioner holds part 4.

3. Purchase Orders The Home Office Purchasing Dept. uses a 10-part top-stub Moore Speediset form. Parts 1 and 2, and parts 6 through 9 are also connected by a bottom stub.

Parts 1 and 2 (bottom-stub Speediset) are sent to the vendor, part 2 being returned as acknowledgment. Purchasing holds 3 in the file. 4 stays in a Vendor file and is matched later to vendor's invoice, receiving report, etc. Part 5 goes back to Stores for its file. Parts 6, 7, 8, 9 (bottom-stub Speediset) is the Receiving Report with price columns blocked out. Part 10 is sent to the department that requisitioned as check against error.

4. Receiving Report This is made up, as stated before, of parts 6 through 9 of the Purchase order. After merchandise is received, the Receiving clerk distributes parts thus: part 6 to Purchasing to approve vendor invoice; 7 to the requisitioner as notification; 8 stays in the Receiving file. Stores uses part 9 to post to Kardex. It is then forwarded with copy of invoice to Accounting for expense—and cost-distribution.

Forms

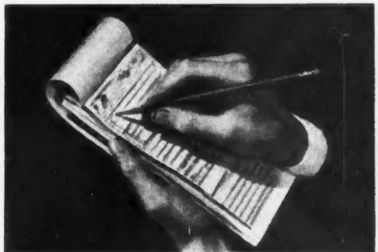
5. Accounting and Inventory records Invoices sent by vendor are matched with parts 4 and 6 of the Purchase order. They are used to process

The 10-part Moore Speediset

payments and to give account distribution control. A Kardex in Stores furnishes positive control for all items issued or received.

Savings and Gains

Moore's multi-part speed stationery has eliminated entry duplication. There are minimum writings to control purchasing, receiving, accounting and inventory. Careful form design and the right distribution have given control of purchases and inventory. Receiving record is a by-product of the Purchase order, eliminating one form. Other economies are: simplified matching, scheduling of shipment arrivals, better control at the receiving dock. Carbon handling and form jogging are eliminated by the Moore Speediset construction, allowing subsequent entries. If you would like a closer look at this well-engineered system, write Moore for the System Survey described in the coupon. Or mail the coupon to the Moore office nearest you.



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NOTES AND COMMENTS

A New C.I.C.A. Research Publication

A new book entitled "Financial Reporting in Canada" has just been published by the Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants. It is the first annual summary of financial reports published by 275 industrial and mercantile companies in Canada in 1953 and 1954. With more than 50 tables of statistical breakdowns showing trends in the disclosure and presentation of reporting, this publication is expected to become a handbook for administrative and practising accountants who are faced with the preparation of 1955 year end statements. It is available now from the Canadian Institute at $4.00 a copy.

C.I.C.A. Officers at American Institute Meeting

Gerald Martin, president of the Canadian Institute, and E. Michael Howarth, executive secretary, together with Mrs. Martin and Mrs. Howarth, attended the 68th annual meeting of the American Institute of Accountants held in Washington from October 23 to 26. A message of fraternal greetings from the C.I.C.A. was conveyed by Mr. Martin to the more than 2,000 members of the AIA who were at the meeting.

Elected president of the American Institute for 1955-56 was John H. Zebley, Jr., a partner of Turner, Crook & Zebley, Philadelphia. Mr. Zebley succeeds Maurice H. Stans who was recently appointed Deputy Postmaster General of the United States. The vice-presidents named were Dixon Fagerberg, Jr. of Phoenix, Ariz.; John A. Lindquist of Cleveland, Ohio; J. S. Seidman of New York City; and Robert E. Witschey of Charleston, W. Va.

1955 Uniform Examinations

From October 12 to 19 students in 33 Canadian centres sat for their intermediate or final uniform examination. Four marking centres – Montreal, Toronto, Winnipeg and Vancouver – have been set up and on December 1, 2 and 3 the Board of Examiners-in-Chief meet in Toronto to review the results of the marking task.

Quebec Institute's Gala Celebration

Highlight event of the Quebec Institute's 75th anniversary will be a banquet to be held on Wednesday, December 7 at the Sheraton Mount Royal Hotel in Montreal. His Excellency, the Right Honourable Vincent Massey, P.C., C.H., Governor General of Canada, will be the guest of honour and the main speaker of the evening. A dance will follow the banquet.

George P. Keeping, second vice-president of the Quebec Institute, heads the committee on arrangements.

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ACCOUNTING MACHINE

Continued from page 462

1956 Conference of the C.I.C.A.

Dates of the 1956 conference and 54th annual meeting of the C.I.C.A., which will take place in Halifax, have been set for September 10, 11 and 12. Campbell Leach of Montreal has been appointed chairman of the conference committee and co-chairman is Hugh Spencer of Halifax, past president of the Nova Scotia Institute.

Canadian Reports Award Winners

Four Canadian companies were among this year's winners in the annual report contest sponsored by *The Financial World,* a New York magazine. The Dominion Stores report was judged the best of any submitted by a Canadian firm while Brazilian Traction Light and Power Company won first prize in the category of companies doing business in Latin America. Chateau Gai Wines and Southam Press received top honours for their respective industries. With over 5,000 reports entered in the competition, the grand prize went to the Pennsylvania Railroad of Philadelphia for its 78-page report containing coloured photographs and charts as well as a balance sheet, profit and loss statement, summary of earnings statement, and general history and resume of the company's outlook.

Queen's Conference of Business Leaders Planned

Plans for a conference of Canadian and American business leaders in the early summer of 1956 at Queen's University were drafted by the Queen's University Advisory Council meeting in a two-day session in November. Details of the conference program will be handled by a working committee which includes J. J. Macdonell, C.A., Earl Suttie and John MacDonald of Montreal as well as senior members of the university's Faculty of Commerce.

Members Directory 1955-56

A new edition of the members directory is just being issued. Although less than a year has elapsed since the publication of the previous directory, nearly 40% of the listings have had to be changed in order to show the new partnerships, offices and members of our growing profession. The 1955-56 edition can be obtained from the C.I.C.A. at the special price of $2.00 to members and students.

U.S. Tax Chief

Russell Chase Harrington has been appointed U.S. Commissioner of Internal Revenue, replacing T. Coleman Andrews, it was announced recently. Mr. Andrews resigned the office to become Board Chairman of the American Fidelity & Casualty Company of Richmond, Virginia.

In the News

A past president of the Canadian Institute of Chartered Accountants, HENRY G. NORMAN, has been appointed Consul General of Canada in New York. He will take over the post now held by the Hon. Ray Lawson.

WALTER J. MACDONALD, another past president of the C.I.C.A., has been appointed to the Winnipeg Advisory Board of The Royal Trust Company. Mr. Macdonald is the senior Canadian partner of Deloitte, Plender, Haskins & Sells.

At This Season of the Year

We take the opportunity of wishing all our readers and friends a happy Christmas and New Year.

Editorial

EMPHASIS ON RESEARCH

AMONG THE SEVERAL activities of the profession in Canada which are the concern of the national body, none is more important in the long-term development of professional accountancy than what we call accounting and auditing research. In its research program the profession is making its major bid for a position of increasing usefulness in the community. For that reason it is obviously important that the job be well done.

The broad objectives of the research program are improvement in the accounting art, and securing the adherence of all those using the accounting medium to what may be called accepted principles. The detailed methods which are followed in an attempt to secure these objectives consist of several quite different types of activity. One of the essential aspects is a continuing effort to improve terminology. The language of accounting, like the language of literature, is a living, changing thing; the new must be recognized when it is good, and the old discarded when it no longer seems to serve a useful purpose, but always the great body of accounting terminology must be used with care and with discrimination if accounts are to tell their story. Thus, problems of terminology find their way periodically into research bulletins, and from time to time a complete revision must be undertaken of the whole body of accounting language.

The second type of work which is essential to a research program is a continuous scrutiny of current accounting trends and techniques, and the periodic communication to the profession of the results of such studies. Thus, the accounts of public companies are under constant analysis as in such manner only is it possible to measure the degree of consistency within the profession and the broad extent of adherence to acceptable standards.

The third main line of attack consists of the study of specific problems by the research staff and the committee, the finished product of such labours finally emerging in the form of research bulletins. These bulletins embrace not only solutions to new problems which arise through changes in our economy, taxation, etc., but also represent from time to time necessary re-statements of fundamental principle.

While the experience and judgment of competent members of the profession are essential to parts of a research program, it has become

clear that the chartered accountant in public practice or in industry simply cannot afford the time to do the spade-work which is required in this type of activity. As a result, the sufficiency of any research effort must rest primarily on the amount of skilled help which is available on a full-time basis. The Canadian Institute of Chartered Accountants now finds itself with sufficient technical strength on its staff to carry out at least a minimum research program. Under the leadership of Lawrence Macpherson, research activities have developed considerably in the past year and, happily, the results of this increased effort are becoming apparent. There are, however, several important questions which need to be answered.

For example, to what extent must research activities be centralized, and should the program be planned in such a manner as to permit greater participation by members across the line? Because it is not feasible to call together more than once or twice a year a group representative of all parts of the country, it is necessary that a centrally located sub-committee should attend to much of the detailed work of the committee proper. In spite of that, however, may it not be possible to effectively share the burden by farming out specific problems to groups in different parts of the country. We believe this not only to be highly desirable in terms of the contribution to be received, but such a course has obvious advantages in promoting consistency and unifying the profession.

Another major question-mark arises in the responsibility of the Institute to lend assistance to the lone practitioner. Are we ready to embark upon a program of extending technical aid to the individual member, as is done in both Great Britain and the United States? There can be no doubt that the accountant practising alone is today in great need of a source to which he can turn for technical help and unbiased advice. In the United States last year, over 1,000 enquiries were answered by the Technical Information Service of the American Institute of Accountants. There can be no question that the development of such a service in Canada is extremely desirable, and the sooner it can be instituted the better.

Our ability to proceed with either of these important matters, and there are more that might be raised, rests directly upon the availability of trained personnel on the staff of the Institute. It is fair to say that the development of either of these activities will necessitate additional staff and expense. There will, naturally, be some reluctance to place any further strain upon the finances of the Institute, and it may well be three or four years before the increase in membership reaches the point where the additional costs involved can be financed. We lean to the view, however, that these activities are of such importance that the conduct of a respectable research effort should take precedence over almost all the other activities of the Institute.

Audit of Stockbrokers' Accounts

J. E. SEYBOLD

There are seven stock exchanges in Canada, the three largest in volume of business being the Toronto Stock Exchange, the Montreal Stock Exchange and the Canadian Stock Exchange. The Securities Acts of the Provinces of Ontario and Quebec have placed the authority and responsibility of auditing the accounts of stockbrokers, who are members of the stock exchanges in these Provinces, in the hands of the governing committees of the stock exchanges. The governing committees have in turn appointed exchange auditors or consulting auditors who issue detailed instructions to the auditors of the individual stockbrokers. These detailed instructions set forth the minimum audit requirements and the forms and reports which the broker's auditor is required to submit to the exchange auditors. It is the intention of this article to discuss briefly the procedures necessary to comply with the minimum audit requirements. The main purposes of the audit of a stockbroker are:

1. To determine that the broker is solvent and has sufficient working capital.
2. To ensure that the broker is not using any safekeeping or free securities as collateral against loans or for delivery against short sales.
3. To see that the broker is abiding by the margin requirements of the various stock exchanges.

Each member broker of the above-mentioned exchanges has a fixed audit date, known as the annual audit. In addition each member of the Montreal Stock Exchange and Canadian Stock Exchange has a surprise audit during the course of the year. The members of the Toronto Stock Exchange file a surprise questionnaire which is prepared by the member firm in lieu of the surprise audit. As the term "surprise audit" implies, no advance warning can be given to the broker and the auditor's preparations cannot be as extensive as for the annual audit.

In conducting the audit of a stockbroker, it is imperative that the auditor control the securities in the broker's possession and certain of the essential records until the securities are balanced and accounted for, and the balances in the ledgers have been checked to the trial balances and schedules. In order that these may be released from control as quickly as possible some advance preparations for the audit should be made.

Audit at Fixed Date

Before the audit of fixed date the auditor should arrange with the broker for the latter's staff to prepare:

1. A list in duplicate of the names of all securities in the security ledgers, one copy to be used as a box count sheet and one copy as a price list.
2. Letters in duplicate to banks, trust companies and other lenders requesting confirmation of call loans to the auditor and to include the amount of loan, rate of interest and securities held as collateral.
3. Confirmations for accounts with other brokers.
4. Letters to depositaries instructing that, during the period of the audit, no access to the broker's safety deposit box be permitted except in presence of designated persons on the auditor's staff.
5. Letters to bankers requesting that bank statements and relative cheques and vouchers be mailed direct to the auditor's office during the two-week period following the commencement of the audit.
6. Position slips, in duplicate, for all clients' accounts.
7. Confirmation forms for all partners', staff and firm accounts.

Surprise Audits

If the audit is a "surprise audit" less advance preparation can be made, but all necessary blank stationery, envelopes, etc. should be assembled. Lists for the box count and price lists may be prepared from the previous audit working papers leaving sufficient spaces for the names of additional securities.

Procedure

On arrival at the broker's office on the audit date, one or more of the audit staff should immediately take control of the cage and list all securities going in and out during the course of the count, list all securities in the outgoing registered mail together with the name and address of clients, take over and list all receipts for securities in transfer, and count cash on hand.

The count of securities should be started as soon as possible and sufficient staff should be available to complete the count quickly and accurately. Particular attention should be paid to the segregation of securities in the box which normally include the following categories:

1. The "Ordinary" box contains securities held for firm account or for clients' margin accounts.
2. "Safekeeping" securities are those held by the broker as a special service for his clients. Each certificate must be tagged with the owner's name and clearly marked or segregated as being in "safekeeping". "Safekeeping" securities may not be taken out of safekeeping without specific instructions from the client. Such instructions should be in writing, or if given orally, be acknowledged by a broker's note.
3. "Free" securities are securities held by a broker for a client who does not owe any money to the broker. The regulations regarding segregating of "Free" securities vary between exchanges and the auditor should examine the regulations of the exchange concerned.

The auditor in charge of the cage should follow up all securities in transfer and preferably send a junior along with the broker's messenger

when collecting securities from the transfer agents. Any securities which have been returned in private name should be noted and not included when margining the client's accounts. Any local transfers not completed after three days, and all out-of-town transfers should be confirmed by letter.

Security Ledgers

When the count of the box has been completed, the next step is to balance the security ledgers. The "short" side of the ledger will normally show the following locations of securities:

Box — ordinary
Box — free securities
Box — safekeeping
Transfer
Call loans — (Banks and trust companies)
Due from brokers (failed to receive)
Clients

The "long" side of the security ledger will show the following classifications of ownership of the securities:

Due to brokers (failed to deliver)
Clients
Firm and partners
Unclaimed stock dividends

The securities shown on the duplicates of clients' position slips, broker's accounts, call loans, the box count and securities in transfer list will have to be checked against the security ledgers. It is probable that differences will arise between the security ledger and the securities listed on the clients' accounts etc. It is advisable to have one person on the auditor's staff designated to clear all differences and make any recounts of securities in the box that may be necessary. When the security ledgers are finally balanced, control of the box may be relinquished. It is the practice of some auditors to relinquish control of the box as soon as the box count has been agreed with the security ledgers but, if possible, it is desirable to retain control of the box until the security ledgers are fully balanced.

Mailing of Statements

The instructions issued by the exchange auditors require all balances and security positions except clients' accounts to be positively confirmed; clients' statements must have a request stamped on or attached asking that all differences or errors be reported direct to the auditor. The original statements (the duplicates being retained by the auditor and checked to the security ledgers mentioned above) for clients and other brokers and call loan confirmations should be mailed by the auditor's staff in the auditor's envelopes. A statement should be mailed to every client with a money balance or security position. Occasionally clients have requested brokers to retain their statements until called for at the broker's office. The auditor should list separately all such clients' statements not mailed and either deliver the statements to the clients personally or give them to a partner of the broker's firm for delivery. A positive confirmation should be obtained for all such statements that are not mailed. Before the clients' statements are mailed, the addresses should be checked against the addresses of the brokers' staff as one check against fictitious accounts.

Margining Accounts

As shown on the following page, a price list should be prepared for all securities carried by the broker. This list should contain a column

March 31, 1955

Security	*Source of Price*	*Actual Mkt. Price*	*Mkt. Price used*	*Margin Value*
Abitibi Paper — com.	T.S.E. - L.S.	27¾	27	13½
Abitibi Paper — pfd.	T.S.E. - B.	26¼	26	13
Acadia Sugar	T.S.E. - L.S.	9⅜	9	4½

to show the sources of the price and if it is a last sale price or a bid. The second column should show the actual price. The third column should show the market price used and eliminate small fractions. The fourth column should show the margin value of the security calculated in accordance with regulations of the exchange concerned. The first and second columns should be completed by the broker's staff and checked by the auditor who will extend the third and fourth columns. The elimination of minor fractions at this time will save considerable time and error when pricing and extending security values. If unlisted securities are carried in a client's account a bid price should be obtained from an independent broker.

The securities on the duplicates of the clients' position slips can then be priced and extended and the money balances marked on the slips. The position slips can now be sorted into margined, undermargined, partly secured or unsecured classifications. It should be remembered that all accounts belonging to the same client should be combined when determining the margin classification. All undermargined, partly secured and unsecured accounts should be reviewed by the auditor before finally completing the audit and any changes in the margin condition noted.

Security positions with other brokers and dealers and securities lodged with banks and trust companies as collateral for call loans need only be valued at market. It is necessary to review the accounts of other brokers to determine if all open trades at the audit date have been settled within thirty days. Any trades which remain unsettled should be investigated.

General

In addition to the items in the balance sheet which have security balances as well as dollar balances, the following accounts will require the attention of the auditors.

Cash

All cash on hand must be counted at the start of the audit. Bank accounts should be reconciled at the date of the audit and a second reconciliation made two weeks after the audit date and bank confirmations obtained at both dates. As previously mentioned the auditor should arrange to have the cancelled cheques and bank statements sent directly to him during this period. The cash transactions for the two weeks prior to the audit date and for the interval between the two bank reconciliations

should be carefully scrutinized for unusual items. Any notes discounted and not paid or returned unpaid should be noted and the securities attached margined in the usual manner.

Accounts Receivable

Accounts receivable normally consist of advances to employees, cash deposits and dividends claimed. Confirmations should be obtained for advances to employees and cash deposits. These items are excluded however when determining the excess of current assets over liabilities. Dividend claims will be discussed later.

Stock Exchange Seats

A schedule should be prepared showing the book value of the seats held by the broker on the various exchanges. Letters of confirmation should be obtained from the exchanges indicating the partners in whose names the seats are registered together with a statement of any liens or encumbrances that may be registered against them.

Prepaid and Deferred Charges

Prepaid and deferred charges should be verified. Frequently they include insurance premiums and the policies should be examined to see if the coverage and amounts are adequate and comply with the regulations of the exchange.

Unclaimed Dividends

Practically every broker will have an account for unclaimed dividends. These unclaimed dividends result from receiving dividends on share certificates registered in the broker's name which have been delivered to other brokers. The Income Tax Act, s. 47(4) and (5) now imposes a tax of 25% on all unclaimed dividends received by a broker in the period of twelve months immediately preceding the broker's taxation year. When paying dividend claims it is essential to see that only the net amount is paid on the claim if the dividend has been subject to the 25% tax. The auditors should also review the internal control on unclaimed dividends as there have been cases where unclaimed dividends have been diverted to the credit of employees' accounts or to fictitious accounts operated by employees. If there are any debit balances in the unclaimed dividend ledger the auditor should see that dividend claims have been made against the broker who owes the dividend and that the dividend is received before the audit is completed.

Accounts Payable and Accrued Liabilities

The auditor must take the usual precaution to see that all liabilities have been set up or provided for in the balance sheet. The review of the cash book for the period following the audit date will frequently disclose items which should be included as payables at the audit date. Accruals should be checked and compared with those of the previous audit.

U. S. Exchange

A comparison of the balances receivable and payable in U.S. dollars should be made. If the difference is material, provision should be made for the exchange on balance.

Capital Accounts

A schedule should be prepared showing the continuity of the partners' capital accounts for the period and that the balances are in accordance with the partnership agreement.

If the stockbroker is incorporated, it will be necessary to examine the letters patent, by-laws, minutes and the shareholders' ledger. Occasionally a corporation might issue debentures as well as capital stock. When this is the case, the debenture holders have to sign a subordination agreement in favour of the other creditors of the company.

Internal Control

A careful review of the system of internal control by the auditor and his report on any weaknesses found can be of great service to the broker. If the broker is a member of the Montreal Stock Exchange or the Canadian Stock Exchange, the auditor must send a copy of his report on internal control to the consulting auditor. The easiest method of evaluating the effectiveness of internal control is by means of a questionnaire and there is an excellent questionnaire on stockbrokers' accounts and procedures in the seventh edition of *Montgomery's Auditing*.

The auditor must remember at all times that although his fee is paid by the broker, his report is to the exchanges whose desire is to protect the investing public and to ensure that their members adhere to the by-laws and rules of the exchanges.

A LAYMAN'S GLOSSARY OF ACCOUNTING TERMS

Business overhead.

Spotlight on Prospectuses

(Part II)

C. W. LEACH

ANOTHER TECHNIQUE adopted by underwriters in the early stages of certain underwritings, even before the underwriting agreement has been signed, is to discuss the proposed issue with one or more institutional buyers, in other words, with the investment officers of insurance companies. This would be done only with the issuing company's permission. In this way the characteristics of the security may be developed and designed to meet the wishes, views or requirements of the prospective buyer in the event that the issue will depend heavily on the institutional market. In fact, it is an open secret that such issues are sometimes unofficially sold in part or even in their entirety before the prospectus is issued or even the earlier formalities completed. This, however, takes the form of a private placement rather than a public distribution, and price spreads and syndicating arrangements are consequently different.

The largest institutional buyers are of course the insurance companies whose investment powers are limited by the Canadian and British Insurance Companies Act. This Act provides that insurance companies doing business in Canada may invest their funds only in certain ways. The securities so authorized include government and municipal bonds, debentures and other forms of indebtedness; similar securities secured by Government of Canada or provincial subsidy or similar payment; corporation bonds fully secured upon real estate or plant of the corporation used in the transaction of its business; equipment trust certificates of railways; bonds debentures or other indebtedness of a corporation that has paid the specified dividend upon all of its preferred shares for five years or a common dividend of at least 4% on the paid up value of its common shares for a similar period; bonds debentures or other forms of indebtedness of a corporation where the earnings for five years have been equal in total to at least ten times the interest requirements and in any four of the five years have been equal to at least one and one-half times such requirements; preferred shares of a corporation that has paid the full dividend for at least five years on all its preferred shares or a dividend of at least 4% on its common shares for the same period; and common shares of a corporation that has paid a dividend of at least 4% for seven years.

This is an abbreviated description of the investments authorized but is sufficient to indicate the characteristics which are required in corporation securities in order that they may qualify.

Other institutional buyers include trust companies, pension funds and investment trusts. Trust companies are limited in the manner in which they may invest either their own funds or their trust funds. For example, The Trust Companies Act of Canada limits the investment of trust money by companies incorporated under its provisions to government and municipal securities or first mortgages upon improved freehold real estate in Canada, whereas trust companies may invest their own funds in a list of securities roughly comparable to those which are allowed to insurance companies. The provincial Trust Companies Acts and provincial requirements as to the investment of trust funds must also be observed.

Chartered banks may also be included in the broad category of institutional buyers but since their investment policy must, generally speaking, be limited to securities of relatively early maturity they are not prospects for the average security issue, except to a rather limited extent when they buy part of an issue for matters of business policy, specifically, to encourage the company to do its commercial banking with a particular bank. The interest of the chartered banks in the securities market is therefore primarily in the high grade issues, particularly government bonds at the three levels of government activity — federal, provincial and municipal. They participate as members of banking and selling groups in the underwriting of these securities and become buyers for their own account on the open market when these issues come close to their maturity dates, broadly speaking within five years thereof. Since short-term money in these circumstances carries a low yield, the market price of bonds will increase somewhat and probably reach a premium before coming back to par as they approach maturity, so that the banks will buy at an appropriate price for a small yield and other investors will be prepared to sell at a good price for reinvestment in securities carrying a higher yield for a longer term. Municipal issues are nearly always in the form of serial bonds running up to, say, 20 years and the chartered banks buy the earlier maturities at the time of the original issue.

Statutory Requirements

A prospectus usually consists of four parts: (1) a summary of information on the first page, (2) a more or less lengthy statement as to the nature of a company's business and finances, usually in the form of a letter from an executive officer of the company, (3) financial statements consisting of an earnings report and a balance sheet sometimes supplemented by a pro forma balance sheet, and (4) where appropriate a recitation of certain required information referred to as "statutory information". The two latter items, namely the financial statements and the statutory information, may be referred to as the statutory requirements of a prospectus.

The Companies Act 1934

Probably a good majority of our prospectuses are for companies incorporated under the Dominion Companies Act and it is appropriate to

review first the requirements of that Act. The so-called statutory information is of limited interest to accountants, or, indeed, to anyone, since it consists largely of a recitation of information of a general nature, concerning the company and the securities issued or to be issued by it.

There are, however, two items or groups of items which may be said to relate to the financial statements. The first is that the prospectus must state the minimum amount which in the opinion of the directors must be raised by an issue of shares in order to provide (a) the funds required for the purchase price of any property to be purchased, (b) the preliminary expenses payable by the company, (c) commissions payable in connection with the issue of shares, (d) the repayment of any moneys borrowed for the foregoing purposes, and (e) the repayment of bank loans, if any. All these matters may, according to circumstances, have a direct or indirect relationship to the company's balance sheet and in a broader sense to the soundness of the transaction and the ability of the company to carry through its plans.

One item perhaps deserves special mention and that is the reference to the preliminary expenses payable by the company since these expenses may be incorporated in a pro forma balance sheet appearing elsewhere in the prospectus. It is understood that the expression "preliminary expenses" is interpreted to mean those expenses which are necessary to launch the company as distinct from those expenses which may be necessary to put under way any business which the company proposes to undertake. In other words preliminary expenses are those commonly referred to as organization expenses and not preproduction or setting up expenses of any business operation. As already indicated, prospectuses for new business are, in any event, rare.

The other items of statutory information in which the accountants have a direct interest are the statements of the particulars of any property acquired or to be acquired out of the proceeds of the issue and of material contracts other than those in the normal course of business. It is naturally desirable that the information submitted in reply to these questions should be consistent in so far as possible with the disclosure in the balance sheet of any commitments which the company has undertaken.

All this required information must be contained in a separate part of the prospectus commencing with the words "statutory information" in conspicuous type.

The statutory requirements of primary interest to accountants are of course the financial statements. These requirements are as follows:

(1) THE BALANCE SHEET

The prospectus must of course contain a balance sheet of the company, or (to paraphrase the words of the Act) if the company has any subsidiaries, a consolidated balance sheet of the company and all of its subsidiaries, as at the end of the last complete financial year of the company or as at a date not more than 120 days prior to the issue of the prospectus whichever is the later; this balance sheet must be "certified by the company's auditors".

Three points arise from this. First of all if there are any subsidiary companies they must be consolidated and there is no provision for the exclusion

of any subsidiaries other than by Court order, which indeed must be obtained for any deviation from the laid down requirements. (A subsidiary company is defined elsewhere in the Act as being one of which more than 50% of the voting stock is owned.) Secondly, the balance sheet must not be more than 120 days old and this will require the preparation of a special balance sheet if the prospectus is being issued during the latter two-thirds of the company's fiscal year. Thirdly, it is the company's auditors who must report on the balance sheet, there being no provision under this particular clause for the engagement of other accountants. In this connection the word "certified" is by usage ignored and a report in the same general form as the auditors' report to the shareholders (an expression of opinion) has become usual.

There is also a requirement that every balance sheet or certificate of the company's auditors shall —

a) state the total amount of arrears of preferred dividends, if any, and the date from which such arrears commenced to accrue;
b) state the manner in which fixed assets have been valued and if valued in accordance with an appraisal the date of the appraisal and the name of the appraiser;
c) if in the opinion of the auditors the reserve for depreciation is inadequate, contain a statement to that effect;
d) if the auditors are not satisfied as to the adequacy of the reserve for bad and doubtful accounts, contain a statement to that effect;
e) contain a statement as to the manner in which the value of the inventory has been determined, and if in the opinion of the auditors, the value shown exceeds market value, contain a statement to that effect.

Consideration of these factors would be routine with most accountants but they should be dealt with in exactly the terms of the Act in order to give technical compliance. One cannot help wondering now why emphasis was placed on these particular points, but perhaps they are indicative of the atmosphere which existed at the time that the Act was written, namely in 1934.

An Additional Requirement

There is an additional requirement for the balance sheet of a company which has not been carrying on business for more than one year and which has acquired another business. It is that there must also be a statement, again certified by accountants (not necessarily the auditors of the issuing company) "specifying the nature and the value as shown by the books of such business of any moneys or other assets of such business excluded from such acquisition or distributed or disposed of otherwise than in the ordinary course within six months of such acquisition".

This transaction is not often met and consequently the requirement is one which could easily be overlooked. Its purpose is evidently to require disclosure of the circumstances surrounding a type of company promotion which was fairly popular in the 1920's. By it the promoter would acquire all the shares of a prosperous company and cause that company to resell its operating properties and assets to a new company the shares of which would in turn be sold to the public, the cash and marketable securities

held by the first company being left in the hands of the promoter; this clause would bring such a transaction to light. For some reason it was not considered necessary to report on the transaction if it was more than a year old, presumably because such a lapse of time would put it in the category of a bona fide transaction as opposed to a promotional plunder.

(2) THE EARNINGS REPORT

The second portion of the accounting requirements is the report on profits or the "earnings report" as it is popularly known. The requirement is for "a report by the auditors of the company with respect to the profits of the company and the nature and source thereof, or the losses of the company as the case may be in respect of the latest completed financial year of the company and of the two preceding financial years, year by year . . . . and all its subsidiaries". The following points arise from this:

a) A report is required, not a statement; thus the material need not be confined to figures and any explanatory comments are more appropriate as text in a report than as footnotes.
b) The report must be by the auditors of the company, there being no provision for a report by investigating accountants; if it is desired to bring in a stronger firm for this purpose their name, however, can be used jointly with that of the auditors.
c) There should be a reference to the nature and source of the profits, something which tends to be overlooked; technical compliance can be obtained by using a caption for the first column of figures such as "gross (or net) revenue from manufacture and sale of the company's products".
d) The results must be stated year by year and not totalled or averaged; this principle is now fully recognized in practice and no longer presents any difficulties.
e) If there are any subsidiary companies, their results must be consolidated or at least included in the report.

A separate and similar report is also required in respect of any business which is to be acquired directly or indirectly out of the proceeds of the securities offered. In this connection it is provided that such a report may be made by "accountants who shall be named in the prospectus". This leaves the arrangement sufficiently flexible so that the report can be made by either the auditors of the acquired company or by the auditors of the acquiring company or for that matter any other accountants. In practice the auditors of the acquired company usually make the report which is quoted in the report of the auditors of the company issuing the prospectus.

Finally there is a stipulation that every report with respect of profits —

a) shall show separately any profits which in the opinion of the auditors or accountants are of a non-recurring nature,
b) shall exclude unrealized profits, and
c) shall show the profits after income taxes actually paid or payable or estimated if the amount has not been finally determined in those cases where shares of the company are being offered.

In practice it is seldom necessary to report on non-recurring profits. It is very difficult to arrive at a deci-

sion as to whether or not any profits of the company are in fact "non-recurring". The fact that a particular type of profit is not part of a company's normal line of endeavour does not necessarily mean that it is non-recurring. Profits on sales of capital assets, for example, may occur from time to time, as may losses also, but these profits and losses may be in fact nothing more than the accounting recognition of inaccuracies in depreciation provisions. Gains or losses on sales of investment may occur from time to time especially if the company has surplus liquid resources which must be invested. A third example would be the profits or losses realized in a segment of the business which has been disposed of; if the proceeds of the sale of such business have been utilized even more profitably in the continuing part of the company's business it is scarcely fair to consider such profits as being of a non-recurring nature.

The Companies Act does not in fact require that non-recurring profits be eliminated but rather that they be segregated and identified in the report. It is believed that many accountants exclude them from the earnings report because the profits realized or losses incurred were large enough to have been carried to surplus account at the time of their realization or perhaps because they were not subject to income tax, an even weaker reason. It would seem advisable that in normal cases all profits and losses be included and that where any items are of an extraordinary nature they be carried in a separate column in the earnings statement. In those cases where profits or losses are clearly of an extraordinary character and so large as to cause distortion if included in the earnings statement, they should be excluded and described in the footnotes to the statement. An example of this would be a large profit or loss on a major sale of plant.

The adjustment of income taxes to the amounts actually assessed in respect of the various years is on the other hand an adjustment which has become fully recognized in practice.

C.I.C.A. Recommendations on the Companies Act

In 1953 a committee of the Canadian Institute of Chartered Accountants submitted a report on the Dominion Companies Act making extensive recommendations for the improvement of the Act in so far as accounting matters are concerned. The following are the more important recommendations as regards the prospectus provisions:

a) That since consolidated financial statements do not always present the fairest picture, consolidated statements ought not to be a mandatory requirement and that it should be left to the issuing company to decide whether the statements should be consolidated or not or to what extent, provided that if financial information with respect to any subsidiary companies is omitted, the figures should be stated separately together with the reasons for their exclusion;

b) That the contents of the balance sheet should be governed by the same statutory requirements as apply to the annual balance sheet;

c) That the auditors' report should be subject to the same statutory requirements as the report on the annual statements;

d) That the prospectus should include a balance sheet of any business to be acquired;

e) That the earnings statement should be for a minimum of five years and should include the profits for any broken period up to the date of the balance sheet included in the prospectus;

f) That the earnings statement should contain at least the following items for each year:
   i. operating profit or loss
   ii. provision for depreciation and depletion
   iii. interest on funded debt including amortization of financial expense
   iv. income taxes
   v. provision for minority interest in profits
   vi. net profit or loss.

It is also recommended that non-recurring or exceptional profits or losses should be stated separately or commented upon by way of note, and that there should be a statement as to the effect of any change in accounting principle or practice or in the method of applying any such principle or practice which affects the comparability of any item.

A suggested text for the appropriate section of the Act reflecting the foregoing and other recommendations appeared in the report. It is interesting to observe that the committee did not recommend the disclosure of sales or gross revenue in either the annual accounts or the earnings report. This has of course been a contentious point for many years and is a requirement that has been adopted in the United States.

(*To be continued*)

THE MASTER-WORD

Sir William Osler

Though a little one, the master-word looms large in meaning. It is the "Open Sesame" to every portal, the great equalizer in the world, the true philosopher's stone which transmutes all the base metal of humanity into gold. The stupid man among you it will make bright, the bright man brilliant, the brilliant student steady. With the magic word in your heart all things are possible, and without it all study is vanity and vexation. The miracles of life are with it; the blind see by touch, the deaf hear with eyes, the dumb speak with fingers. To the youth it brings hope, to the middle-aged confidence, to the aged repose. True balm of hurt minds, in its presence the heart of the sorrowful is lightened and consoled . . . . Not only has it been the touchstone of progress, but it is the measure of success in everyday life . . . . The master-word is WORK.

Canadian Tax Conference Record Attendance

Nearly five hundred people, including some one hundred and fifty accountants, attended the Ninth Tax Conference of the Canadian Tax Foundation on November 7 and 8. After a lapse of five years, the Conference was again held in Toronto, and the increased interest taken in the work of the Foundation was evidenced not only in the record attendance but also in the fact that every Province in Canada, except Prince Edward Island, was represented.

J. A. Wilson, F.C.A., Chairman of the Board of Governors of the Foundation, presided over the opening session on Monday morning. This was divided into two parts, one dealing with the 1955 Tax Highlights in Canada and the other with recent American and British Tax Developments. Addresses were given by L. C. Frewin, C.A. and Henry White, Q.C., representing the accountants and the lawyers respectively. Mr. Frewin, Chairman of the Taxation Committee of The Canadian Institute of Chartered Accountants, touched upon the various recommendations made to the Minister of Finance by the Joint Taxation Committee of The Institute of Chartered Accountants and the Canadian Bar Association. Mr. White, Chairman of the Taxation Section of the Canadian Bar Association, gave a review of some of the more interesting tax cases heard by the Board and the Courts during 1955.

In the second part of the session, Eugene Oakes of the U.S. Treasury gave an appraisal of certain features of the new U.S. Internal Revenue Code; and Harvey Perry, Director of the Foundation, discussed the report of the Royal Commission on the Taxation of Profits and Income in the United Kingdom.

Monday afternoon and Tuesday morning were devoted to panel discussions on various subjects. Five panels ran simultaneously — three on income tax, one on death duties and one on sales tax.

The session on Tuesday afternoon dealt with the question of Control of Government Expenditure. John J. Deutsch, Assistant Deputy Minister of Finance, said that during the last fifteen years government spending had risen tenfold, and that two-thirds of the present outlay is being spent on new governmental functions which have been assumed since the outbreak of war in 1939 — largely defence and social welfare. A. J. E. Child, Vice-President of Canada Packers Limited, strongly advocated the establishment of a Royal Commission to examine the necessity for our greatly increased government expenditure, and questioned the need for expenditure on such activities as the National Employment Service, the National Film Board and the Canadian Broadcasting Corporation. He also felt that administration costs could and should be greatly reduced, stating that "... any one in the government or out of it would agree that some duplication, waste and inefficiency might very well be present in expenditures of this magnitude". He further suggested that a committee of senior civil servants study industrial methods of

(*Continued on page 490*)

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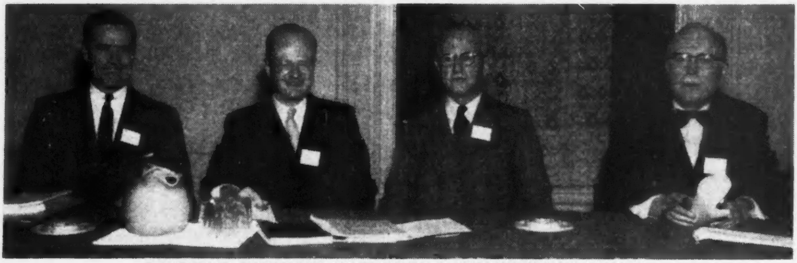
TAX PROBLEMS ON PURCHASE OR SALE OF A BUSINESS PANEL

Left to Right: Jacques Tetrault, Montreal; J. E. Langdon, Toronto; A. Willard Hamilton, C.A., Montreal; Campbell W. Leach, C.A., Montreal.



POSTWAR BUSINESS TAXATION DEVELOPMENTS PANEL

Left to Right: J. S. Innes, C.A., Toronto; H. Heward Stikeman, Q.C., Montreal; H. E. Crowell, C.A., Halifax; H. P. Herington, F.C.A., Toronto.

FEDERAL-QUEBEC RULES FOR ALLOCATION OF CORPORATE PROFITS PANEL

Left to Right: J. C. Wilson, C.A., Montreal; Roger Letourneau, Q.C., Quebec; A. K. Eaton, Ottawa; E. H. Ambrose, C.A., Hamilton.

CONTROL OF GOVERNMENT EXPENDITURE PANEL

Left to Right: A. J. E. Child, Vice President, Canada Packers Ltd., Toronto; John J. Deutsch, Assistant Deputy Minister of Finance, Ottawa; M. Gerald Teed, Q.C., (Chairman); W. Ross Thatcher, Ind. Member of Parliament, Moose Jaw-Lake Centre, Sask.

New Fields for the Chartered Accountant

HON. H. deM. MOLSON

TO LAUNCH into a critical review of the state of the profession, a chartered accountant holding a managerial position in industry might look first at the question of student training. Does the training and experience received by a C.A. student prepare him adequately for industrial work and, in particular, for executive accounting duties? Many would say that while the training is as good or better than that obtained in any other field, there is still room for improvement.

Suggestions for Improvement of Student Training

One suggestion which might be examined is to plan a program of rotation of duties, clients and supervisors for the student during his period of apprenticeship, so that he may benefit from the broadest experience possible. Admittedly that is practicable only in the larger accounting firms, but even in these firms it is now the exception rather than the rule. There are, understandably, limitations imposed by the problems of internal organization involved in such a program, but the benefits which could be obtained are of such importance, not only to the student but to his employer, that a serious effort should be made to develop this procedure.

In 1946 the English Institute adopted measures to permit those serving articles to spend a period not exceeding six months in the office of an industrial company, so long as they are under the supervision of a qualified accountant while there. It is a matter of regret that this permission has not been sought on many occasions, although the practice is gradually increasing. There can be no doubt that in many cases it would be an advantage for the student to have this experience. It would provide him with an opportunity of getting behind some of the records which he has seen only in summary or report form previously and of familiarizing himself with the routines and structure of an industrial organization. It would also make it possible for him to do something for himself, rather than just check the work of others. This action of the English Institute is recommended for serious consideration by the provincial Institutes in Canada.

It has been said frequently that the chartered accountants' course of in-

An address to the 1955 annual meeting of the C.I.C.A., Toronto, Sept. 12, 1955

struction, as it exists, does not provide sufficient grounding in the liberal arts. Perhaps a course in the English and/or French languages and literature, and in report writing, in addition to or in replacement of one of the basic courses now offered, would be at least a partial answer to this criticism. But one cannot generalize too far on this point because of the extreme variations in the education of the individual student before he is exposed to the C.A. course.

Client Advisory or Management Consulting Services

It is of course a truism that the normal audit today differs vastly from the audit of 20 years ago. Time was when the shareholders' auditor not only prepared the company's financial statements but he might first have done all the preparatory posting of ledgers, journals and so forth. By and large this is now a thing of the past. Today business accounting has progressed to a point where the ordinary financial statements, that is, those for the shareholders, are in most cases prepared by the client's own staff. The large bulk of the detailed checking and vouching work has been discontinued and has been replaced by intelligent test-checking, by reviewing and improving the existing systems of internal checks and controls, and by verifying balance sheet items. During the next 20 years the scope and content of the annual audit will undoubtedly change even more.

Speaking generally, industry expects more from its auditors than a "check and tick" operation leading to the production of financial statements substantially the same as those already prepared by the client's accounting staff. It expects more and, of even greater importance, it needs more.

It is evident then that a somewhat dreary future will lie in store for the auditor who is content to do a routine checking job to fulfil the requirements of the Companies Act. It is also evident that those in the profession who are not content to stand still are thinking of new fields to conquer. Where should they look?

At present the field of management counsel has been pre-empted in large measure by management consultants almost by default. Of course it is readily admitted that the engineers and other specialists in particular subjects are the best qualified to handle plant problems such as layout, materials handling, wage structures and so forth, but there is no need to leave to them any of those problems directly concerned with accounting operations. It certainly seems that chartered accountants as a group have underplayed their competence in this field. In such areas as systems and procedures, clerical work simplification, inventory checks and controls, forms standardization and office equipment advice, all of which are closely related to the normal audit activities, the profession should not give up its rightful position of leadership.

There would seem to be no reason why such special management studies as corporate analysis and organizational structure, the evaluation of executive functions, office job evaluation, compensation methods and incentive plans, pension and profit sharing plans and many more of the same type should not be offered to almost every client.

However, equally important, possibly, as all of these are the many advisory services or extras that every

chartered accountant should be able to provide to his client in the normal course of carrying out the standard audit engagement. It is this sphere that presents the best opportunities of building up the reputation of the profession among the business community. It represents the biggest, and to some extent a virtually untouched, market for C.A. services over and above the regular audit market, and it is here that we may see the most change during the next few years.

Effecting Valuable Improvements

The type of extra service will vary, depending on the size of the client and the level of competence of the client's accounting staff, but the auditor from his vantage point, and from his experience and observations during the course of audit, should have no trouble locating, in the average engagement, some area where improvements of value to the client can be effected. He might find them among the client's cost analysis and cost control procedures, or his sales analysis and statistical presentations. Again, the members of the profession have long been recognized as authorities on matters of taxation. It may be, however, that their activities have too often been restricted to corporate and personal income taxes and that they have been inclined to look much too superficially over the host of sales, excise and special industry taxes.

The high level of tax rates, and the variety of taxes levied on industry in general today make it fertile ground for thorough investigation by auditors, to insure that the interpretations of the law made by clients' staffs do not result in incorrect assumptions or overpayments. This is all the more necessary in the case of certain taxes where the Acts themselves are either incomplete or unclear, or where government regulations are not published.

Then there is another field where the chartered accountant can be of great service. That is in connection with budgets and forecasts — in assessing both the technique and accuracy of their preparation, or in improving their presentation and advising on interpretation or in the use of the information provided thereby. Complete budgetary control procedures are not yet in such wide use here as they are in the United States, so there would seem to be good opportunity to extend value to clients by the design and installation of such systems wherever they could function usefully.

At this point the question arises as to whether or not the profession has been slow to adopt the thinking, and to some extent the techniques, of the comptrollership group in the United States, where emphasis has swung from historical costs and analyses to the adoption of standard costs, forecasting and profit planning.

Many of us feel a certain inadequacy when we read or hear discussions of the complexities of standard cost accounting systems. It may be that we are somewhat behind the times in becoming actively interested in this field. It may suggest, too, that more emphasis should be placed on cost accounting techniques and interpretations in the prescribed course of training for student C.A.'s, in order to promote in the chartered accountant of the future a greater familiarity and understanding of costing and forecasting methods and in increased proficiency in their application.

Financial Statements

Just recently we discovered that my great-great-grandfather had not, in fact, bothered to balance his books for a span of 20 years. At the same time it was perhaps one of the most successful periods in the life of our business. He did know what he had in his strong box and, in the absence of income taxes, that perhaps meant a great deal more than it would today. You must not think, though, that counting the contents of the strong box was such an easy task. Among our old records there is a statement of cash on hand dated September 11, 1800, which lists the till as containing these currencies: doubloons, half joes, guineas, louis, Pistols, dollars and crowns. The coins are noted as being so many grains over or under weight and the grand total — expressed in sterling — is adjusted accordingly. It is impossible to reproduce in type the old copper plate writing of the book-keeper of those days. Its antiquity may lend enough interest to make it worthwhile showing what the cash count of 1800 looked like.

CASH COUNT — 1800 STYLE

1 Dbloon		7 over		
1 "		8 "		
1 "		9 "		
—				
3				£11: 2:0
3 Hf. Joes	1 ea.		3 less	
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2 " "	4 ea.	8 "		
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8 "				£16: 0:0
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1 Louis			7 "	1: 2:6
		—	—	
		39	47	
		—	—	
1 –½ gns.				11:8
3 Pistols		in all		1: 7:9
			47)	£31: 7:3
			39) 8 Less	
			Ded. 8 Gns.	1:6
				£31: 5:9
35 Dollars				8:15:0
1 Crown				5:6
In change				2:16:7½
				£43: 2:10½
11th September 1800			I.A.G.	

This must have a familiar ring to those who, from time to time, are engaged in the consolidation of the financial statements of companies with far-flung interests. However, it is a far cry from those halcyon days to the present when financial statements must be presented regularly in accordance with government regulations.

This leads to the suggestion that there is an opportunity for members to mould public opinion and influence clients, primarily public companies, to improve the quality and the frequency of their communications to shareholders, employees, customers and the public at large. Insofar as quality is concerned much has been done by the Institute; much remains to be done to bring about better uniformity of presentation and terminology.

On the second count, that of frequency, I find myself in the position of the man of whom it was said "He is a great professing Christian but he never goes to church". Our company issues annual statements only, which by and large is the custom in the brewing industry in Canada. There are valid arguments for continuing the practice. Some industries are subject to seasonal influences which serious-

ly affect the profits in certain months of the year, and the publication of such results could be very misleading to shareholders. In addition when there is really intense competition it is extremely difficult to keep shareholders very fully informed without telling competitors some interesting facts. And I might add that our business, in spots, is quite competitive. Notwithstanding this, the day will certainly come when most, if not all, public companies will be providing financial information on an interim basis.

Annual reporting under today's fast moving circumstances is hardly good enough. It is up to business to regulate itself on this important policy unless it is prepared to be policed by government on the very day that public opinion demands controls similar to SEC regulations which prevail in the United States.

Public Relations

Perhaps an "outsider" for some 20 years sees the profession in a different perspective from those who have been in active practice during that time. It is my feeling that the public relations efforts of the various Institutes have not succeeded in doing all that might have been hoped for in bringing about an increased awareness in the business community and a fuller understanding of the high qualifications of chartered accountants generally in fields other than straight audit and taxation work.

A properly directed public opinion is vitally important to the fortunes of the profession and of its individual members and will have its effect on increasing the number of special assignments and consulting opportunities from business generally. Furthermore, it is all important in the matter of recruitment of personnel both in adequate numbers and quality. The activities and achievements of the profession, when they do reach the public, are not always represented in such a way as to create the favourable and lasting impression they deserve.

In articles and pamphlets on chartered accountancy as a career, the high school graduate or college undergraduate is frequently counselled to "find out" about the profession and the opportunities which it presents, and about the course curriculum and type of work involved during training. It would be preferable if they were told about it by teachers, by guidance counsellers, by their parents and friends, during the period of time that they are considering career opportunities. An improved public relations program on a national scale would go a long way toward correcting this criticism.

An additional thought that has occurred to me is that there would seem to be an excellent opportunity for promotion of the profession, while at the same time rendering public service, through the organization and scheduling by the Institutes of public meetings or forums on business topics of current interest, including such matters as the various fields of taxation (corporation, personal, succession duties, sales and excise taxes, etc.), accounting problems in connection with special or legislative developments, interpretation of new legislation, and so forth. If these meetings were properly promoted, scheduled and carried out on a high level, academically and organizationally, I feel that they would go a long way toward supplementing the existing public relations activities, and to increas-

ing the business public's knowledge of the profession.

Personnel

As in all other walks of life, quality of personnel is of vital importance to the accounting profession and generally speaking it is as high or higher than obtains anywhere else in business. However, there are a few observations one could make on the subject.

It is too trite to say that a good chartered accountant should possess the qualities of honesty, both moral and mental, good education, competence in his profession and initiative. The qualities mentioned are, of course, prerequisites but we need to give more attention to that last word "initiative". Usually we pass it off in the same way as honesty. We don't even think about it very much. But in the accounting profession, as well as in every form of business, real initiative, of course coupled with sound common sense, is one of the greatest needs today and has a direct bearing on all aspects of the profession. For example, it is necessary in dealing with student training if any modifications are to be made. It is necessary in dealing with clients' advisory services, particularly. In this regard the accountant should have no hesitation in going to his client and offering services whenever he sees that there is an opportunity of providing his client with something which he is lacking. Again, in the modification or improvement of financial statements, initiative is needed and, lastly, for good public relations certainly initiative is one of the largest factors.

It is a strange thought that many of the additional services which I have suggested the chartered accountant could provide to his client are, in fact, sought out by the client or, in some cases, by creditors when a business is in financial difficulties. Surely we should not wait for a situation of difficulty. Those services should at least be outlined to every client without in any sense forcing them upon him. Of course, the ideas must be sound and not of a character to bring us into disrepute with the tax authorities. We could not, for instance, be induced to follow the precedent which it might be said was established for us by an ancestor in charging up to the business such personal expenses as these items culled from the cash book of September 1809:

Paid for 1 bag Snipe Shot and 1 cannister Gunpowder	£1- 7- 6
" G. Clark for Muff and Tippet	£8- 0- 0
" Rent of pew in the Presbyterian Church	£3- 0- 0
" for hair cutting	- 7
" for a whip	-10- 0

Thinking Forward

Because of our responsibilities as chartered accountants we have an ingrown sense of the past. Our function is to verify what has gone on during a preceding period and to insure that the results as given to shareholders or the owner are a true statement of what has occurred in the business. Perhaps this responsibility colours our thinking too much. In this modern day and age is it not more important to try to delve into the future? Is it not more helpful to business in general to try to plot accurately and well what it can do and what it will do in the next coming period? What has gone by is the platform from which we jump to the next succeeding stage. In modern competitive business, planning for the

future period is now of such tremendous importance that it is time that our thinking was directed more toward the future and less toward the past.

In directing our thoughts in the right way there is one further minor comment to make. It is that in all professional fields there is a tendency to be too technical. Technical language is readily understood by one's colleagues but immediately one leaves that circle, technical language becomes a sort of mumbo jumbo which is quite foreign to and quite difficult for the layman to understand. In dealing with industry or with business in general, the accounting profession should make a serious effort to bring simplicity into all its reports, all its forms, all its statements.. Simplicity will add greatly to the layman's knowledge of the profession, to his understanding of what it is doing and what it is trying to do. The recognition of the profession will be greatly enhanced by a definite effort in this direction.

(*Continued from page 482*)

measuring and promoting efficiency, with the object of applying them to the operations of the government. Ross Thatcher, Independent Member of Parliament for Moose Jaw-Lake Centre, Saskatchewan, denounced the present parliamentary method of approving government expenditure, which he said was "so inefficient and unbusinesslike as to be almost unbelievable". It was impossible, he said, for the average Member of Parliament to have the technical knowledge to appraise the huge expenditure programs of the government, and he advocated the setting up of special parliamentary committees to scrutinize the estimates of every government department. He also felt that the taxpayer would benefit if many Crown corporations were turned over to private enterprise.

At the closing dinner on Tuesday evening J. A. Wilson, Chairman of the Board of Governors, announced that the Canadian Tax Foundation would in the future include in its activities the study of government expenditure, applying to it the same methods, and proceeding with the same thoroughness, as it had in the past in studying taxation. Introducing the guest of honour, the Honourable Dana Porter, Provincial Treasurer of Ontario, Mr. Wilson expressed the gratitude of the Foundation to Mr. Porter for deputizing, at extremely short notice, for the scheduled speaker, the Honourable Joseph Smallwood, Premier of Newfoundland, who was fog-bound and had been unable to fly to Toronto. Mr. Porter said that unless the Provinces were given an adequate revenue from the major tax fields, the future income of the Federal Government would be in danger. It was necessary, he said, for the Provinces to maintain an atmosphere of expansion, for which money was needed. If they were not given an adequate share of federal revenue it would become necessary for them to impose provincial taxation.

The Tenth Tax Conference will be held in Montreal at the Windsor Hotel on November 12 and 13, 1956.

Historical Sidelights on Accounting

DEREK L. JOHNSTON

IT IS OFTEN too casually assumed that accountancy is one of the youngest of the professions. We administer no Hippocratic oath deriving from the practice of medicine in classical Greece; nor can we, like the barristers, claim an intellectual forebear of the fame and stature of Cicero. However, if we leave to medicine and law their amicable dispute as to which is the older profession, it is still possible to assert that the origins of accountancy are of great antiquity. We may lack the effrontery to claim the first verse of the eleventh chapter of the Book of Proverbs – "A false balance is an abomination to the Lord" – as an early reference to strict auditing standards. But in 1926, in Ur of the Chaldees, Sir Leonard Woolley found, in a temple built nearly 1,500 years before Christ,

" . . . . a hoard of many hundreds of clay tablets belonging to the business archives of the building . . . . For all incomings the priests drew up formal receipts of which copies were filed in the temple archives; whether it were a herd of sheep or a single cheese, a bale of wool or copper ore from foreign parts, the receipt was duly made out and entered . . . . As the stores were drawn upon for the use of the temple, animals required for sacrifice, oil for squeaking door-hinges, wood for making a statue or gold for adorning it, the responsible official drew out an issue voucher giving the name of the recipient and his authority for the demand, and copies of these too were filed."

There is a reference by the Roman scholar Pliny which may imply a primitive use of double entry, and a Dutch writer has even suggested that it was known to the ancient Greeks. The origin and invention of double entry are of great interest to us, for it is his use of this technique of the art of accountancy that marks the first claim of the accountant to professional and qualified status. Like the mastery of perspective for the painter, a grasp of the basic principles of double entry is essential to the accounting student; and until he has taken that often difficult step into a new world where every figure is reflected by its equal and opposite, he cannot go forward with confidence. ("The White Knight", Alice wrote, a few moments after she had climbed through *her* looking glass, "balances very badly.")

Medieval Records

Until quite recent times it was thought that Fra Luca Pacioli, author

of the first known printed work on double entry, which appeared in 1494, was the father of this now universal bookkeeping system. Research in the last 25 years has revealed, however, that the Venetian friar had merely summed up contemporary knowledge of bookkeeping, and that there exist financial records of the mid-14th century kept in double entry. The earliest of these which may be regarded as the forerunners of books kept in the modern fashion of double entry are a number of "registers" and ledgers of bankers and merchants living in Bruges about 1370. The ledgers contain only personal accounts, but these are written in double folios with debits on the left hand side and credits on the right, and balances brought down.

The medieval preoccupation with religion is shown by the repeated injunction in Latin at the heads of folios, or even before individual entries, "In the Name of God, Amen". Carman Blough, research director of the American Institute of Accountants, has reported seeing old books of account with such inscriptions on their covers as "Keep good account, for God's sake" and "He who keeps good account will attain Paradise, Amen". It was frequently the custom to place the sign of the Cross at the top of every folio recording money transactions, to prevent dishonest entries. Alas! This species of internal accounting control has not survived the passage of time.

16th Century Developments in Britain

In 1543 appeared the first known English book on accounting, by one John Gouge — a professional name singularly worthy of preservation — entitled "A profitable Treatyce called the Instrument or Boke to learn to knowe the good order of Kepyng of the famous reconynge, called in Latin, Dare and Habere, and in Englyshe, Debitor and Creditor". A few years later, John Mellis followed Gouge with his "Briefe Instruction". In Reformation England the tide of religious fervour was still running high and Mellis's first instruction was, "Every merchant, in all his work and business, should call to mind the Name of God in all such writings or in any reckoning that he will begin." He then followed with this specific direction:

> "Every parcel that is set in your Journal ought to be made two parcels in your Ledger, the parcel of Debtor on the left side of the book and the parcel of Creditor on the right side of the book; and the parcel Debtor reports the number of the leaf of the Creditor and contrariwise the Creditor parcel reports the number of the leaf of the Debtor. And thus you shall knit them together and make your sum at the ends."

No coldly impersonal textbook writer, Mellis made allowance for the human foibles of his readers and students:

> "Forsooth it is necessary for a good keeper of the Ledger to know how to return a parcel which by error is put in Debtor, and should stand in Creditor, or in the account of Martin, and should be in the account of Thomas; for why? sometime a man is somnolent and not like disposed to his business."

There are so many references in Shakespeare to accounts and audits that one may safely assume that the use of regular accounting systems had become commonplace by the beginning of the 17th century as had also

the practice of conducting periodic audits. The concept, however, of the independent professional accountant and auditor had not yet come into being. The auditor was either a civil servant (the office of Auditor of the Exchequer had been established as early as 1314) or a trusted employee of the merchant or landlord. The household accounts of the Princess Elizabeth Tudor for the year 1551-52 (six years before she became Queen) cast in the form of account charge and discharge, that is widely used in Scotland to this day, contain a reference to her auditor; in "thaccumpte of Thomas Parrye esquier", comptroller of her household, among other "forren receptes" the said Mr. Parrye is charged with "the some of xlij.s.j.d. (42 shillings and one penny) for xij. linges and xxxj. coddes, solde to Thomas Benger, your graces Auditor".

It was customary for the 16th century auditor to pay formal visits to his master's business house or estate to "hear" the accounts prepared by the staff. These occasions seem to have been more festive than their modern counterparts and were responsible for the special brew known as audit ale. Whether this was produced at the beginning of the examination with the idea of making the auditor "somnolent and not like disposed to his business", or at the end to celebrate an unqualified report, we do not know. The custom unfortunately did not endure, and by 1822 we find Byron complaining, "And where is now the goodly audit ale?"

Commencement of Public Accounting Practice

The earliest record of the work of an independent practising accountant (discovered in research by the Scottish History Society) is the minute book of a Scottish "Cloth Manufactory" covering the years 1681-1703, where one Alexander Heriot seems to have been engaged yearly for a fee of £10 per annum to examine amounts, check balances and cash, and supervise stocktaking. The first known written report of an accountant in public practice is that of the investigation in 1721 of the dealings of a director of the South Sea Company in the stock of that fantastic venture, and is entitled "Observations made upon examining the books of Sawbridge & Co. by Charles Snell, Writing Master and Accountant in Foster Lane in London." Evidently the 18-century Code of Professional Conduct did not forbid the addition of a specialist qualification to the designation "accountant".

One cannot resist turning aside for a moment from the development of professional accountancy to take a glance at the pathetic little entries in the account-books of old Mrs. Windham of Felbrigg Hall in Norfolk, one of the victims of the monumental crash: "Michaelmas 1722. I lost so much by the South Sea Buble, and my affairs wear so intangled, I could finish no account"; and "My Accounts so confused I can't explain ye £24-7-11, nor will I take ye trouble having so much Bisnesse." Small wonder that her son James would write "Those Devills of Directors have ruin'd more men's fortunes in this world, than I hope old Beelzebub will do souls for ye next."

The advent of the Industrial Revolution, and the increasing need for more elaborate financial records and skilled advice on their maintenance, was soon reflected in the opening of numerous practising accountants' offices in Edinburgh, Glasgow, and Lon-

don. By 1820 we find Sir Walter Scott, in a letter of advice about a nephew's career, writing that "he could not follow a better line than that of an accountant. It is highly respectable." Another literary figure of that day who may be claimed for much closer connection with our professional work is that of Charles Lamb, who was a clerk in the Accountant's office of the East India House for many years. A London Times correspondent, Samuel McKechnie, has recently discovered a number of accounts audited and signed by Lamb in the India Office Library. One such report reads "We have examined this Account; the Number of days is correct and the sums right cast and added", and another, for £38.14s.2d. is marked "This Bill is wrong added £1 – should be £37.14s.2d."

Organization of First Societies and Institutes

The tremendous decade of railway building in Britain in 1840-50, and its financing by joint-stock companies, brought another upsurge in numbers of accountants, and it is, therefore, not strange to find in 1853 that "several gentlemen connected with our profession" had "resolved to bring about some definite arrangement for uniting the professional Accountants in Edinburgh". In June 1854 a petition for a charter was submitted to Queen Victoria, and the royal warrant for the incorporation of an Institute under the name of The Society of Accountants in Edinburgh was granted on October 23, 1854. It was the centenary of this event that was celebrated in a fitting manner in Edinburgh in 1954. Grants of charters to Glasgow and Aberdeen societies followed – the associations of the three Scottish cities are now combined in the Institute of Chartered Accountants of Scotland. In 1880 the Institute of Chartered Accountants in England and Wales received a charter.

British Columbia Institute

The year 1902 saw the formation of the Dominion Association of Chartered Accountants, authorized by Act of the Federal Parliament. Among the charter members were John F. Helliwell, F.C.A. (now the oldest living member of the B.C. Institute) of Vancouver, and W. Curtis Sampson of Victoria. It was soon realized, however, that the constitutional provisions of the British North America Act, reserving education to the Provinces, would render the formation of a B.C. Institute necessary, if training for admission to membership were to be undertaken in this Province. In 1904 four B.C. accountants, of whom three were chartered accountants with memberships in British or Canadian Institutes and the fourth held a C.P.A. degree from the State of Washington, held a series of meetings and drafted a submission to the Provincial Government which culminated in the adoption by the Legislature of the British Columbia Chartered Accountants Act in the spring of 1905.

The preferment of new legislation is nearly always a protracted and costly affair, and honour is due to the memories of the four charter members who persevered to obtain the Act which has governed and protected the B.C. Institute for 50 years. Their names were William T. Stein, C.A. (Edin.), first president of the Institute, Arnold L. Berdoe, C.P.A. (Wash.), E. B. McDermid, C.A. and John B. McKilligan, C.A.

No time was lost by the members of the new Institute in appointing a secretary, Mr. Matthew J. Crehan, and establishing routines for administration, registration of students and entry of new members by examination or by application from other recognized accounting bodies in Britain and other Dominions. In 1911, after a brief flirtation in 1909 with an ephemeral organization known as the Federation of Chartered Accountants in Canada, the Institute became affiliated with the Dominion Association (now the Canadian Institute) of Chartered Accountants and today all its members, in common with those of the nine other provincial Institutes, are members of the Canadian Institute.

In 50 years, the number of the B.C. Institute's membership has risen from the original four to 700. The administration of the affairs of the Institute is carried on by a Council of 12 elected members, assisted by many volunteer committees, and a full-time secretary-treasurer with a permanent staff of three assistants. In addition, there are nearly 400 students under articles following courses of instruction used by a number of other Provinces (supplemented in B.C. by lectures given by members) and taking the uniform examinations set by the Canadian Institute.

For the achievement of the past half-century, in which it may justly take pride, the B.C. Institute owes a debt of gratitude to many past and present members whose efforts and imagination have made it what it is today. The only currency for settlement of this debt is constant endeavour to maintain and improve the profession's standards.

THE CANADIAN
CHARTERED ACCOUNTANT

Article Writing Competition

THE CANADIAN CHARTERED ACCOUNTANT announces that it will sponsor an Article Writing Competition for students and chartered accountants who have obtained their certificates since January 1, 1945. Contestants may write on any subject of their choice relevant to the field of accounting, auditing or taxation.

Articles may be written in English or French.

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Prizes: First prize $300; second prize $200; third prize $100.

Closing date: Midnight on February 29, 1956.

Eligibility: The contest will be open to:

(1) A student in accounts of any provincial Institute in Canada or a candidate for the Diploma of Licentiate in Accountancy of one of the 3 recognized Quebec Universities who is presently employed by a practising chartered accountant in Canada.

(2) A member in good standing of the C.I.C.A. who initially obtained his certificate of admission to a Provincial Institute in Canada or to a recognized overseas Institute since January 1st, 1945 (except members of the staff of the Canadian Institute of Chartered Accountants).

Note: Anyone intending to enter the contest should communicate with the Executive Secretary, The Canadian Institute of Chartered Accountants, 69 Bloor Street East, Toronto, who will furnish the official announcement and a memorandum of additional instructions.

The Confessions of a Life Member

G. E. F. SMITH

Before I became a chartered accountant 51 years ago, there were, I believe, only three of the profession in Hamilton: C. S. Scott, Charles Stiff and A. Blanchard. G. U. Stiff, a nephew of Charles Stiff, had left Hamilton for Toronto some three or four years before, and was residing in the latter city when he was admitted to the Institute. For part of the last half of the Gay Ninety's, Mr. G. U. Stiff and I had been employees of Grant's Spring Brewery Company Limited. He was secretary-manager and I did all the bookkeeping that he and the office boy found too difficult. In time, each of us had learned to make beer his servant and not his master. (The office boy drank water.)

In 1903 Charles Stiff was auditor of Canadian Canners Consolidated Companies Limited (now Canadian Canners Limited) and I was the chief accountant. I always thought that the money paid to Mr. Stiff was absolutely wasted. The chief accountant never did anything wrong for him to discover.

I know very little of the later activities of Mr. A. Blanchard (I think it was A. and am almost certain it was Blanchard). In his earlier years he coached me for the intermediate and final examinations at either 25c or 50c an hour. The amount was an enormous one in those days and, in terms of butter, was equal to two or four pounds respectively. I feel sure that he never had to go without butter and I am proud to think that I had some share in keeping him supplied.

The old-time auditor got along without many working papers and relied almost altogether on ticks to safeguard his clients' interest. He ticked generously in every book and record. With such conscientious and exhaustive work it is no wonder that he felt quite confident when it came to signing the balance sheet. Everything had been ticked and each tick was in its proper place. He did not have to write "subject to the foregoing". There was no foregoing to be subject to. In my opinion the modern working paper auditor who still must tick owes a debt of lasting gratitude to the all-ticking auditor from whom he inherited the art.

I do not propose to say much about my passing the intermediate examination, in the year 1903. I came through with flying colours – that is, I had marks to spare. But oh! how different

it was with my final examination in 1904. That was the year of the great conflagration on Toronto's Front Street, when hundreds of buildings, safes, books and records were destroyed by fire. The cunning examiners made all they could out of the awful holocaust and asked us wretched candidates a lot of frightening questions such as: —

"Mr. Jones, a wholesale grocer, lost everything in the great fire including his safe, books and records. How would you go about rebuilding his books and records?"

Fortunately for me, I knew where Mr. Jones could *buy* a new safe and a new set of books. I put this piece of good news down on my paper and was going to start on the next question. Then it occurred to me that the examiner might consider that my answer might be worth only 19 instead of 20 marks, so I wrote this: —

"Mr. Jones should send a letter to each debtor stating that due to the fire he has to take the word of the debtor as to the amount owing.

"Mr. Jones should leave his creditors alone. They will not forget him. The accounts payable ledger will be written up again all too soon."

Here I stopped. I did not want to say that shipping bills should be examined lest it cast some doubt on the reliability, accuracy, honesty and integrity of all debtors and creditors who, after all, are the backbone of Canada.

At last the results came out. In those days the marks of the candidates were shown along with their names in the published list. The candidate with the highest number of marks came first on the list and, of course, the candidate with the lowest number came last. In 1904 there were about seven successful final candidates and, strange to say, each candidate had only one mark more than the next. If I remember correctly the marks read 306, 305, 304, 303, 302, 301, 300. Since then I have often wondered whether the examiners, not willing to pluck everybody, had put the names of the seven least worst candidates into a hat and had given to the first name drawn the highest of the fewest marks they conscientiously could, and so on down the line.

Of course this explanation has nothing to do with the fact that I was the one with 300 marks.

Today I do not care who knows I came last for there is no use worrying about what happened over 50 years ago. But I was sadly upset at the time. All of the directors of the company which employed me had seen the list of names in the newspaper and had noticed, no doubt with unholy satisfaction, that my name was last. No doubt each one of them, chuckling, thought "he can't have the nerve, after such a poor showing, to ask for a raise". As a matter of fact one or two of them did greet me with something like — "Ha, ha, Smith, last of the bunch, ho, ho, ho!"

How differently was the candidate who had failed by just a few marks saluted. His friends rallied around him, patted him on the back, stood him drinks, and told him he had done well and that next year he would sweep everything before him.

And from that time I have always thought that it is better, yes, far better, to be a good failure than a poor success.

BY GERTRUDE MULCAHY B.A., C.A

Accounting Research

The C.I.C.A. Research Department

A Current Research Project

"Financial Reporting in Canada" represents a major milestone in the progress of accounting research in this country. For the first time the research staff of the Canadian Institute of Chartered Accountants has presented, in book form, a summary of annual reports published by Canadian companies. The statistical tabulations provide a factual record of current accounting and financial reporting practices. This information is based upon an analysis of the published annual reports of 275 Canadian companies for the fiscal years ending in 1953 and 1954.

For the purposes of clarity the content of the book has been divided into five sections. The first of these deals with certain general aspects of the presentation of annual reports. Section 2 reflects the current techniques of disclosure of balance sheet details. Consideration is given to such particulars as descriptive terminology, extent of disclosure, location and segregation of the usual balance sheet items. The statistical tables of this section are arranged in the order in which the various items would normally appear in a balance sheet. Sections 3 and 4 are devoted to the analyses of the form and content of the statement of earned surplus and of the statement of profit and loss respectively. Current practices relating to the title, form and content of the auditor's reports accompanying the statements are summarized in section 5. A list of the 275 survey companies is included in the appendix.

The statistical tabulations of "Financial Reporting in Canada" present factual answers to many questions concerning current reporting techniques in this country. For example, the statistical tables of section 1 disclose the proportion of financial statements prepared in comparative form, the extent and degree of consolidation in the financial statements, and the frequency of the inclusion of supplementary statements, summaries and schedules. The various analyses of the form and details of content of the financial statements answers such pertinent questions as:

> To what extent have the recommendations concerning the use of the term "reserve" been accepted by Canadian accountants?
>
> What is the common treatment of appraisal increase credits?
>
> Do the usual descriptions of the inventories still include "as determined and certified by the management" or words of similar import?
>
> Has there been any trend towards more descriptive phrases such as "earnings retained in the business" as alternatives to "earned surplus"?
>
> Are combined statements of earned surplus and profit and loss currently in general use?
>
> Has the practice of disclosing sales and cost of goods sold in the in-

come statement received general recognition in this country as it has in the United States?

The analysis of the auditor's reports reflects, among other things, the extent to which the recommended standard forms have been accepted.

"Financial Reporting in Canada" should serve a very useful purpose as a "guidebook" to effective financial reporting. For those who are seeking direction in this particular field, many of the usual practices reflected in the statistical tabulations stand out as basic principles of fair reporting. For those who have already achieved a high degree of effectiveness, the survey brings to light certain areas of weakness where common current procedures fall short of fulfilling the minimum standards of disclosure. Such obvious shortcomings must be remedied if the improvement in financial reporting is to be continued.

In interpreting the statistical data, it should be remembered that, since this is a factual report, the bad has been recorded along with the good. A particular practice should not be considered as the most desirable merely because it is shown to be the most common. For example, Table 10-(d)—Terminology of Inventory "Reserves" shows the most common terminology to be "Reserve". Such a description, although used most frequently in both 1953 and 1954, obviously is not the best. The failure to expand the wording to disclose the purpose underlying this item makes it impossible to determine whether the reserve is in effect a true reserve or merely a current adjustment account. Some of the less common wording set out in this table overcomes this deficiency.

Because the first edition of "Financial Reporting in Canada" is limited to a 2-year comparison, it in itself does not reflect the trends in reporting practices. This will be accomplished with the gradual expansion of future editions to a 5-year basis. However, a comparison of the current statistics with similar analysis for prior years, which have appeared from time to time in this column, reveals some very interesting and encouraging developments. Since approximately 2/3 of the current survey companies had also been included in each of the 1949, 1950, 1951 and 1952 analyses, there is a fairly common basis for comparison.

Some of the trends disclosed are very striking. The sudden shifting in the terminology used to describe the "allowance for doubtful accounts" is a typical example. In the reports for 1949 to 1952 inclusive, the most common description of this item made use of the word "reserve", but within a year after the release of Bulletin No. 9, the use of this term dropped from 67.4% (1952) to 29.3% (1953). A further decline to 18.3% is disclosed in the 1954 analyses.

In contrast, some of the trends reflect a gradual recognition over a period of years of minimum standards of disclosure. One such trend is the change in practices relating to the segregation of depreciable and non-depreciable fixed assets. The number of statements in which these two types of fixed assets were segregated has increased from 36% in 1949 to 42% in 1954. This reflects a slow but steady acceptance of the recommendations set out in Bulletin No. 1 and an improvement in the quality of disclosure in this particular item.

"Financial Reporting in Canada" should make a very definite contribution to the progress of the annual reports of Canadian companies.

BY KENNETH M. PLACE, C.A.

Administrative Accounting

Control of Travelling Expenses

While there are many expense areas in industry today which present control problems, none causes more difficulty than proper and intelligent control of travelling expenses. There are many reasons for this. The two most significant factors are that a large number of employees are involved and a large number of types of travelling expenses can be incurred. In this respect, I am using the term "travelling expenses" in its broadest sense to include entertaining and all similar items. At first glance, it may seem a little specious to claim that these two factors alone can create a problem out of something that should, on the surface, be capable of control through carefully considered regulations. A quick analysis, however, will serve to highlight some of the difficulties that can be encountered.

Why should the fact that a relatively large percentage of salaried employees are required to travel or entertain at company expense to a greater or lesser degree cause a problem? First, these employees will range in rank from very junior employees to the senior executives of the company, and it is ridiculous to assume that the level of expense considered appropriate for the junior employees is the same as that for the senior executives. Within these two extremes, depending on the size of the organization, there are almost as many gradations with respect to travelling expenses as there are levels in the organization. To draw a closer parallel, a sales manager would have considerably more leeway to entertain at company expense than a junior salesman; and certainly a company president would not be expected to observe the limits that would be considered adequate for a junior employee. Secondly, with a number of employees at varying organizational levels directly responsible for the expenditures of company funds in a manner closely associated with them personally, it is important that consistency opposite the various organization levels be maintained. Thirdly, employee groups have different concepts of what constitutes a proper charge to the company when travelling. Without passing judgment on what is right and proper and what is not, I think it fair to say that an individual who does a considerable amount of business travel has an entirely different approach to "travelling expenses" than one who travels very infrequently.

The second major factor which makes control of these expenses difficult is the wide variety of business travel which is encountered today, particularly in organizations which operate branch offices or whose ac-

tivities embrace a geographical area which necessitates frequent excursions from the main office. Naturally there are certain types of trips which predominate – sales trips, audits of outside locations, liaison visits, provision of technical assistance to major customers – but while these may constitute the bulk of the company travelling, there are many other types such as attendance at conventions, training courses, transfers from one location to another and so on. In considering all these various possibilities, it should be borne in mind that since the end purpose of these trips is, in most cases, different, it is highly probable that the pattern of the expenses encountered may be radically different. Just as it is reasonable to expect that a salesman will incur entertainment expenses on a sales trip, it is quite unlikely that an employee being transferred from one location to another will incur any substantial outlay for entertainment.

From these illustrations, it is obvious that the formulation of a hard and fast set of regulations to cover all the eventualities encountered would be an extremely difficult, if not impossible, task. Management, however, cannot simply throw up its hands and exercise no control whatsoever. What, then, is the answer? To begin with, there is one inviolable principle which can be stated. All travelling expenses charged to the company must be incurred for the company's benefit. This principle in itself causes difficulty, since there are many interpretations of what contributes to the company's benefit. On the other hand, no employee should be expected to spend his own funds on company travel. Thus, the problem is to establish a happy medium, i.e. a set of principles which safeguard the company and yet do not hamper the employee. Many different methods have been developed with this end in mind. So far, however, no perfect method has been evolved. All have advantages and disadvantages.

One of the major problems encountered in the operation of most of the control systems that have been developed is the lack of a consistent approach to travelling expenses by those responsible for their control. In most organizations, expenses are approved by a number of individuals. Usually the supervisor of each section is responsible for approving the expenses of the employees responding to him. Since it is extremely unusual to find any group of people who approach any one subject in the same way, it is not surprising that such a group will ordinarily have a very heterogeneous approach to this problem. Naturally this results in a lack of uniformity in the allowances for travelling expenses to individuals in the various units of the organization. Such a situation cannot help but cause ill-feeling and general dissatisfaction – ill-feeling on the part of employees and general dissatisfaction on the part of both employees and management.

So far, then, there seems to be nothing but trouble associated with the problem, and no easy solution available. Summing up the situation briefly, the following factors have to be considered:

1. A relatively large number of employees may be required to travel for the company.
2. These employees range from management to very junior levels.
3. Business travel may be necessary for a great variety of reasons, and

the reason for the trip may have an impact on the type of expenses incurred.

4. Each individual who travels has to expend company funds initially on his own authority, but the expenditures are subject to further approval after the fact.
5. Any regulations governing these expenses must be capable of uniform application.

In addition, the two principles outlined above have to be followed:

1. All expenses charged to the company must be incurred for the company's benefit.
2. No employee should have to spend his own funds while travelling on company business, that is to say, he should not be expected to incur any personal expenses by reason of the fact that he is travelling on company business.

The problem of control now resolves itself into the design of a system which fosters reconciliation of the two basic principles involved with the five variable factors outlined above. Again, this may seem simple, but any problem which requires the reconciliation of so many factors involving a human element cannot help but be complex. I think, however, that we now have a basis from which to work.

First, there must be a clear and positive statement of the two principles, i.e. that expenses must be incurred for the benefit of the company and that employees should not be expected to incur expenses they would not otherwise have had. Secondly, certain general rules outlining in fairly general terms the types of expenses that are considered proper should be drafted and given to employees travelling on company business. The following instructions are given only as an indication of the type of rules contemplated:

1. Employees travelling on company business must account for their expenses on the form prescribed by the company. Travelling advances must not be used for purposes other than company business and employees must be able to account for funds advanced at any time, either in cash or by an expense report. In any event, an expense report must be submitted monthly covering all expenditures incurred.
2. The following expenditures may be properly charged against the company: meals, hotel and pullman accommodation, railroad, air, bus, taxi and street-car fares, moderate tips to waiters and porters, etc., entertaining customers, telegram and telephone calls.

These rules are, of course, not complete and are intended only to outline the areas in which the company expects expenses to fall. There are many other types of expenses, which can be and are properly chargeable when travelling. No effort, for instance, has been made to discuss automobile expenses for salesmen. There are a number of different ways in which this type of transportation can be supplied, i.e. company cars, employees' cars, rented vehicles, etc., and accordingly, I have not considered it desirable to enter into any prolonged review of one particular area of expense within the broad field. There are also such categories as moving expenses of an employee's family, storage of furniture, and many other similar items. Again, because there are significant variations in practice between most companies, I have

not attempted to cover all the categories of expenses which might be considered legitimate charges to the company. These comments, however, will serve to indicate the type of general direction which I feel must be given to employees.

Now that certain broad statements of policy have been established, the mechanics to be used to implement them must be considered. Here the problem is mainly one of standardization and education. While the word standardization sounds rather ominous, it is of major importance that all employees be treated consistently within this broad framework. This is where education becomes important. In most organizations, business travel may be authorized by a relatively large number of people, and in almost all organizations, by more than one person. Similarly, the expenses incurred may also be approved by the same group. This being the case, there are bound to be a number of different interpretations of the same set of general rules. Thus it is important that there be some central group which reviews all expense claims, and draws attention of those concerned to all cases where uniform interpretation and application of the general rules has not been made. It is, of course, most desirable to carry out this review or audit before reimbursement is made. In most instances, however, this will be impossible because of the desirability of paying these accounts as quickly as possible.

Of equal importance, however, with this audit and subsequent education of supervisors is the education of those actually incurring the expenses. Accordingly, any education program should consist of two phases, education of those incurring the expenses and education of those approving. Most of the emphasis in such a program will fall on the second phase, i.e. education of supervisors and others who are responsible for approving expense accounts. This is only natural and logical as it is a foregone conclusion that the employee approach to these expenses will be determined throughout the organization by the attitude of the senior employees. Following upon this, it is also obvious that the major responsibility for the first phase of the education program, i.e. the education of those incurring the expenses, will necessarily fall upon this supervisory group since the immediate contact between the employee and the company is through them and it is their responsibility to ensure full understanding of the company policies by those responding to them.

To sum up then, control of travelling expenses, while difficult, is possible with a carefully designed and intelligently administered system of general rules coupled with continual education in their application.

BY MELVILLE PIERCE, B.A., LL.B.

The Tax Review

Isolated Transactions of Purchase and Sale

Undoubtedly the tax question which most often arises is that of correctly characterizing the gain made on an isolated selling transaction. Is the gain made a mere addition to capital or is it income? The difficulty in arriving at an answer arises very often from the lack of clarity in the terms "capital" and "income", with the result that the decided cases on the question furnish far from a certain guide for forecasting the probable decision of the courts on any projected transaction.

The Canadian case law on the subject owes a great deal to the case law under the British Income Tax Act, and of this vast body of law the case cited most often before the Canadian courts is *Californian Copper Syndicate Ltd.* v. *Harris,* 5 Tax Cas. 159, where the Scotch Court of Session found that a certain purchase and sale of mining properties by a company constituted an adventure in the nature of trade rather than the acquisition and disposition of a capital asset and held the gain to be income. In that case the evidence clearly indicated that the properties were acquired not for the purpose of developing them as mines but with a view to selling them at a profit. No one will question the correctness of that decision on the facts, but the suggestion that it is authority for the general proposition that a single isolated instance of purchase and sale of property is necessarily a trading transaction if the object was gain finds no support in British case law. The British decisions are, in fact, to the contrary.

It must be admitted, however, that the so-called doctrine of intention has won the adherence of some at least of the judges of the Income Tax Appeal Board though not of all of them. As yet, it has not been adopted by the Exchequer Court or by the Supreme Court of Canada. It cannot be said, therefore, that the doctrine of intention is accepted law in ascertaining the character of a gain made upon an isolated transaction of purchase and sale of property; on the other hand it cannot be said with assurance that it will not be.

The problem for the tax practitioner called upon to advise a client is thus a most difficult one in this uncertain state of the law. He is aware of the Minister's adherence to the doctrine and the consequent likelihood that the gain will be assessed as income. What then will the Courts do if the assessment is appealed? In the Income Tax Appeal Board it will likely be decided one way if the presiding judge happens to be this or that member and the other way if one of the other members happens to preside. If the matter is appealed further to the Exchequer Court he has perhaps a somewhat greater assurance of the result, and if finally

it goes to the Supreme Court of Canada a still stronger conviction as to the likelihood of his success or failure. Until, however, the latter court pronounces an unequivocal decision which goes to the roots of the question, tax practitioners cannot be sure what are the relevant factors to take into consideration and the weight to be attached to each of them.

Until the law in Canada has been clarified by decisions of the higher courts, therefore, it is likely that resort will be had to the British cases for guidance, and there can be no doubt that they contain a wealth of information, not to say wisdom. What then do the British cases decide in regard to the question of capital or income gain from isolated transactions of purchase and sale? The writer suggests that the following is perhaps a not too inaccurate summary:

1. A single instance of purchase and sale of property does not of itself constitute a trade or business nor does it necessarily amount to a transaction in the nature of trade even if the intention throughout was to make a gain. While the purchase of property for the purpose of sale is characteristic of many kinds of trade, it is not every purchase and resale of property which amounts to a transaction in the nature of trade. Whether or not the transaction is a trading transaction depends on these factors besides intention: (a) the ordinary business or occupation of the taxpayer; (b) the nature and/or quantity of the property; (c) the manner or method of carrying out the transaction.
2. Because a person buys property not with the intention of deriving an income therefrom but with the intention of selling it for gain, it does not inevitably follow that a gain made on its sale is income. The transaction must be a trading transaction for the profit to be income.
3. An isolated transaction of purchase and sale is in the nature of trade if it is marked with the badges of trade, i.e., if it is carried out in the way that commercial transactions in that kind of property are carried out, and/or if the nature of the property or the quantity point to the transaction as being commercial in nature.
4. Where the transaction in question is one of a series of similar transactions or is carried out by a person whose ordinary business consists of dealing in that kind of property it is only a question of fact whether the transaction in question is an isolated transaction or is merely one transaction in the course of the taxpayer's regular business.

With that introduction let us review the last dozen decisions in the Income Tax Appeal Board and the Exchequer Court upon this vexing question.

In *257* v. *MNR*, a lawyer who wanted some two or three acres of a 32-acre parcel for building his home was obliged to purchase the whole parcel, which he then subdivided into building lots, advertised, and sold, retaining the land he desired for himself. Mr. Snyder held that whatever his intention may have been when he bought the land he did actually engage in a business and that his profit was therefore taxable.

That is to say, the taxpayer's intention is irrelevant when he actually uses commercial methods for disposing of property which he has bought.

In *Morassutti* v. *MNR*, the taxpayer, who had formerly been a speculative house-builder, bought a parcel of land with a view to putting up a commercial building in order to derive rental revenue therefrom. Being unable to obtain steel to erect the

building he sold the parcel at a profit. Mr. Monet held that as his intention was to buy the land for investment purposes the gain on its sale was not income.

Here the doctrine of intention was invoked. No doubt the decision would probably have been the same without invoking the doctrine since the taxpayer had withdrawn from the building business in his individual capacity before purchasing the lot in question.

In *287* v. *MNR,* a factory manager bought 29 acres of farm land near the factory as a place of relaxation and for raising purebred cattle. He had the timber on the land cut down and sold it to a lumber company. Mr. Snyder held that the taxpayer did not thereby engage in the timber business and that the profit from the sale of the timber was not taxable. He added that the taxpayer's evidence that he did not buy the land for the purpose of selling the timber at a profit was accepted. The doctrine of intention again!

One may well suppose that if the taxpayer had bought the land for the purpose of cutting and selling the timber thereon the gain would have been held taxable. But were that the case it would not have been the taxpayer's intention alone that fixed the character of the gain, for there would also have been the mode of giving effect to that intention by actually cutting the timber and delivering it to the mill, which are characteristic incidents of a well-recognized business.

In *Martin etc. Ltd.* v. *MNR,* an incorporated plastering contractor built a double duplex with the object of deriving rental income therefrom. Shortly after completion, being unable to rent the dwellings, the company sold one duplex to a director of the company at cost and a few months later sold the other duplex at a profit. Mr. Monet held that the company did not engage in the real estate business for the obvious purpose of profit and that the property sold was an investment that the company disposed of as an onerous investment.

Here again Mr. Monet has recourse to the doctrine of intention. Another judge might have thought it relevant to consider what were the company's objects and powers, as set out in its charter, that the building of houses was something either contemplated or not contemplated by its charter, and that it was an activity either closely or not closely allied to its ordinary business.

In *267* v. *MNR,* two of the three shareholders of a roadbuilding company acquired from a farmer a 10-year right to remove gravel from his farm at 10c a ton. The purchasers spent some months testing the gravel, building a road thereto, and calling on prospective customers. They did not themselves operate the pit but sold their rights to a company which they formed for the purpose of acquiring their rights and operating the gravel pit. Mr. Monet held that their activities were of the same kind and carried on in the same way as those which were characteristic of ordinary trading in the particular line of business, and that the profit was therefore income. In so holding he applied the well-known Scottish case of *Livingstone* v. *Com'rs of Inland Revenue.* He then went on to say that the taxpayers' intention in buying the right to remove gravel was not to exercise the rights or to make an investment

but solely to sell the right to the company which they formed.

This decision well illustrates Mr. Monet's approach to this type of case. Although the reasons he gives based on the *Livingstone* case are sufficient to dispose of the appeal, the learned judge supports that conclusion by the intention test. One must therefore ask whether Mr. Monet would have decided in the same way if the two taxpayers had originally intended to operate the pit themselves but only gave up this intention after they had spent the intervening months in testing the pit, building the road, and calling on prospective customers. The *Livingstone* test would still apply to render the profit taxable, but the intention test would make it non-taxable. Which test would then prevail?

In *Granatstein & Son Ltd.* v. *MNR*, a company whose business related to knitted socks, and woollen, nylon, cotton and rayon rugs and waste, engaged in some 23 commodity transactions on the New York futures market over a period of 7 months, the commodities dealt in being wool tops, grease wool, and hides, none of which had any relation to the company's products. The company's object was purely speculative. Mr. Snyder held that the gain made on these speculative transactions was taxable as being income. The profits, he said, were made in the operation of business in carrying out a scheme for profit-making. What the company did, he said, was to engage in the operation of a business or an activity or an adventure in the nature of trade for the purpose of making a profit. Intention once more!

This case may well be compared with the famous English case *Cooper* v. *Stubbs* [1925] 2 K.B. 753, where a member of a firm of cotton brokers, on his own behalf entered into a large number of speculative transactions in cotton futures. It was held by Rowlatt J. that his activities constituted the carrying on of a trade, an opinion which was shared by one of the three judges in the Court of Appeal. The other two appeal judges held, however, that even if the taxpayer's activities were not a trade, the transactions were entered into with a view to producing revenue or income and that the gain was therefore taxable. Note, however, that the taxpayer's ordinary business was that of a cotton broker, and that the transactions in question were transactions of a kind in which he regularly engaged as part of his ordinary business. In the *Granatstein* case the taxpayer was a manufacturing company and the transactions were in respect of commodities in which it did not ordinarily deal. Mr. Snyder's decision appears to rest on two legs: (1) that the transactions were of a commercial character, and (2) that the taxpayer's intention was to make a profit. Similar reasoning would apply to render taxable the gains made by any person who habitually speculates on the commodities market or, no doubt, the stock exchange if his intention is to make a profit; and if that is indeed the law it will prove most disconcerting not only to the speculating public and the legal and accounting profession but also, one may suspect, to the national treasury.

In *Kennedy* v. *MNR*, a farmer who was also a tourist resort operator bought 65 acres of lake front property adjoining his farm, subdivided part of it into 26 lots, put in a road and sold lots. His intention in buying the land was to provide access to the lake for his cattle and tourist guests. Mr.

Snyder held that notwithstanding his intention he did actually engage in an undertaking of a nature the profits from which were taxable. In arriving at this conclusion Mr. Snyder took into consideration the fact that the taxpayer was in the tourist business.

One rather infers from this and other decisions of Mr. Snyder, and of Mr. Monet as well, that a gain made on the sale of property will be held taxable in either of the following cases: (1) if the property was bought with the intention of selling it at a profit; and (2) regardless of the taxpayer's intention in buying it if he subsequently sells it by means characteristic of business.

In *Cristall* v. *MNR*, one of the controlling shareholders of a hotel leased the hotel restaurant from the hotel at a fair rent, and then sold three-fourths of his interest in the restaurant business to three other persons at a very substantial gain. Mr. Fisher held that as the taxpayer had not been in the restaurant business before, the gain was of a capital nature, the transaction being isolated.

This is a rather refreshing instance of a purchase and resale of property of a kind which is not normally the subject of trade or commerce by a person whose business was not that of dealing in property of that kind, which transaction is held not to be a trading transaction without any reference to the taxpayer's intention. Of course had the taxpayer made active efforts to sell an interest in the restaurant by employing commercial methods for finding a purchaser the answer might well have been different.

In *Barrett* v. *MNR*, a sash and door manufacturer on four occasions over a period of 8 years bought a lot, built a house thereon and after living in the house for a while sold it at a profit; during the same period he built and sold two other houses for profit. Mr. Monet held that he was in the business of building houses for resale at a profit, and that his profit from the sale thereof was taxable.

Here again Mr. Monet in his judgment emphasizes the taxpayer's intention to make a profit, rather than the observable facts themselves which, independently of his intention, point to only one conclusion, namely that the taxpayer was in the house-building business.

In *276* v *MNR*, a lawyer and his friend joined in forming a company to acquire a commercial building for revenue-producing purposes, but the company was forced to sell the building soon after acquiring it when it could not get a tenant for part of it. Mr. Monet held that the gain was capital, presumably on the ground that the company was really an investment company. One of the objects set forth in the company's charter was that of buying and selling buildings, a circumstance to which Mr. Fisher would no doubt have attached very great weight, but Mr. Monet made no reference to it.

In *279* v. *MNR*, an appeal to the Exchequer Court, the taxpayer bought a farm of 83 acres in 1940 and lived there for some years, operating the farm at nights on his return from his work in the city nearby where he was branch manager of a finance company. By 1945 the land had become attractive for subdivision, and the taxpayer subdivided a part of the farm, put in roads, put up an advertising sign, did some newspaper advertising, and sold some lots, though

he did not list the property with any real estate agents or maintain an office. Mr. Justice Fournier held that although he did not buy the farm with a view to selling any part of it at a profit, his activities did amount to a method of carrying on the business of selling building lots, and the profit therefrom was taxable.

This last seems a clear enough case, which could lead to one conclusion only, whatever the test applied.

1955 AMENDMENTS TO THE INCOME TAX ACT (*Cont'd.*)

29. Non-Resident Receiving Timber Royalties May File Regular Return

Timber royalties paid after April 5, 1955, to a non-resident are subjected to a 15% withholding tax, but the recipient is given the same option as a non-resident who receives rents from Canadian real estate, i.e., he may file an ordinary tax return and pay tax on the net income from the royalties at the rate of tax applicable to a corporation or individual resident in Canada as if the timber limits were the taxpayer's only source of income in Canada.

30. Recapture of Capital Cost Allowances from Non-Residents

Non-residents who elect to file returns and pay income tax on their net income from real property rentals or timber royalties in Canada are subject to the recapture of any capital cost allowances which they claimed on the real property or timber limits, but there is no right to average the tax on the recaptured amount unless the taxpayer has filed a return under Part I of the ITA for each of the 5 preceding years. These provisions apply to payments and dispositions made after April 5, 1955.

31. Interest on Loans Obtained by Non-Resident Parent Company of Resident Loan Company

Where a non-resident company owes money to a Canadian resident or to a non-resident insurance company carrying on business in Canada as a result of a transaction by which it has borrowed money and loaned it at the same rate of interest to a wholly-owned subsidiary resident in Canada whose principal business is the making of loans, the interest will be deemed to be paid by the subsidiary to the parent's creditor and not to the parent company. The result is that no withholding tax will be payable on that interest unless the parent company's creditor is a non-resident company and not even then if it is a non-resident insurance company, since the latter is taxable in accordance with Part VIII of the Regulations. By virtue of this amendment it is no longer necessary that the money be initially borrowed from a Canadian resident company or a non-resident insurance company carrying on business in Canada, and the amendment will permit the transfer of the debt by the original lender to a Canadian resident company or to a non-resident insurance company.

To bring the amendment into effect for any company, however, both the parent company and its creditor must execute and file with the Minister an election in prescribed form. The amendment is made retroactive to cover payments made in 1954.

BY J. E. SMYTH, C.A.

Students Department

Associate Professor,
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Notes and Comments

One of our student readers has suggested that this section of the magazine might be brightened up by a new monthly feature entitled something like, "Gossip Overheard from the Comptometer Operators". The idea is intriguing, to say the least, and it is from purely selfish motives that we have had to reject it: we freely admit that, from the point of view of the general reader, the occasional libel action against the editor of the Students Department would provide a highly diverting spectacle.

But the suggestion did bring back to mind one incident involving comptometer operators which was a thoroughly searing experience for us. We were engaged on the audit of a large financial institution, and had been occupying the board of directors room with some measure of reflected prestige when the chief accountant made his appearance and requested, perhaps not unreasonably, that he might have his general ledger back for a little while. A search of the filing cabinets, however, failed to disclose its whereabouts. We stalled for time, and said we would send it in to him in a few minutes. But alas! The few minutes stretched to what seemed like several agonizing hours as every conceivable clue was tracked down to a futile conclusion. Finally, however, when the noon-hour came the comptometer operators, with their usual precision and promptness, left ahead of us for lunch. It was only then that we discovered that one of the girls, shorter than the others, had been using the general ledger to sit on, as a means of reaching her comptometer on the high table in the board room!

Now we know there is some kind of a lesson in this story, but in this case the comptometer operator was such a nice girl that we could never quite bring self to tell her that she ought never to sit on a general ledger again.

THE QUESTION CORNER

When discussing audit procedure in examining transfers to other bank accounts or to affiliated companies, one of our auditing texts recommends among other things that such items be followed through to be sure that the proper account is credited in the receiving cash book. When it is an affiliated company which receives the transfer, should the item be checked by a mailed request for confirmation sent by the auditor to the affiliated company, or should the auditor himself make an independent check of the affiliated company's books?

(*Submitted by a student-in accounts in Halifax*)

Editor's Reply

Very often the same firm will audit the books of all affiliated companies except perhaps when they are located some distance from one another. If the one auditor is engaged by all affiliated companies, he should, in the absence of any special circumstances, do what he would do if the transfer were between the different bank accounts of one company, namely, check both the payment and the receipt aspects of the transfer in the books affected. If, however, the transfer is between companies each of which has its own auditor, the auditor should confirm the details of it by correspondence with the other company.

(Opinions expressed here are those of the editor himself, and comments and criticisms of his answer are invited.)

PUZZLE

Two planes, A and B, were flying to Tripoli, B travelling a mile a minute faster than A. When A was 306 miles from Tripoli, it was leading B by 35 miles, but B arrived there 6 minutes before A. What were their speeds (supposed constant)?

(Submitted by a reader in Toronto)

SOLUTION TO LAST MONTH'S PUZZLE

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Given:  o O o O o   (where o = copper; O = nickel)

1.          o O o       o O  (The point is to put this
                              pair at a correct distance
                              from the remaining coins.)

2.              o     o O o O

3.              o O o o     O

4.                  o o o O O
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PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM 1

Intermediate Examination, October 1954

Accounting II, Question 5 (15 marks)

L Co. Ltd. is a merchandising company operating three departments, A, B and C. All goods purchased are stored in a warehouse pending sale and on receipt of shipping orders are delivered to the purchaser or to carriers who pick up the merchandise at the warehouse. The following information relates to the operations for the year ended 31 Dec 1953:

Warehouse expenses	$ 21,100
Building expenses	150,000
Advertising expenses	45,000
Insurance on stock	5,200
Purchasing expenses	34,650
Delivery expenses	28,600
Insurance on fixtures	15,000
Administration expenses	55,000
Collection expenses	9,800

		Departments		
	Warehouse	*A*	*B*	*C*
Square feet of space	8,000	8,000	9,000	15,000
Value of fixtures	$15,000	$ 16,000	$ 20,000	$ 24,000
Sales		640,000	805,000	1,055,000
Opening inventory		20,000	35,000	40,000
Purchases		440,000	660,000	825,000
Closing inventory		60,000	45,000	60,000
Direct operating expenses		25,000	30,000	40,000

It is estimated that the percentage of cash sales to total sales for each department is as follows:

A 50% B 40% C 60%

Deliveries are made for the following percentage of sales in each department:

A 60% B 40% C 40%

Department C merchandise is twice as bulky, per dollar of cost, as that sold in department A or B.

Required:

Prepare a statement showing the net profit for the year by departments, setting out the basis used in the allocation of expenses.

A SOLUTION

L CO. LTD.

Statement of profit and loss

for the year ended 31st December 1953

	Warehouse	*A*	*B*	*C*	*Total*
Sales		$640,000	$805,000	$1,055,000	$2,500,000
Less Cost of goods sold		400,000	650,000	805,000	1,855,000
Gross profit		$240,000	$155,000	$ 250,000	$ 645,000
Direct operating expenses		$ 25,000	$ 30,000	$ 40,000	$ 95,000
Distributable expenses					
Warehouse expenses	$21,100				21,100
Building expenses (1)	30,000	30,000	33,750	56,250	150,000
Insurance on fixtures (2)	3,000	3,200	4,000	4,800	15,000
Advertising expenses (3)		11,520	14,490	18,990	45,000
Insurance on stock (4)		1,600	1,600	2,000	5,200
Purchasing expenses (5)		7,920	11,880	14,850	34,650
Delivery expenses (6)		6,000	6,500	16,100	28,600
Administration expenses (3)		14,080	17,710	23,210	55,000
Collection expenses (7)		2,560	3,864	3,376	9,800
	$54,100	$ 76,880	$ 93,794	$ 139,576	$ 364,350
Allocation of warehouse expense (8)	(54,100)	8,400	13,100	32,600	
		$ 85,280	$106,894	$ 172,176	$ 364,350
Total expenses		$110,280	$136,894	$ 212,176	$ 459,350
Net profit for the year		$129,720	$ 18,106	$ 37,824	$ 185,650

Suggested Bases of Allocation

(1) – Square feet of space
(2) – Value of fixtures
(3) – $ value of sales
(4) – $ value of average inventory
(5) – $ value of purchases

	A	B	C
(6) – Bulk of deliveries	60% of 400,000	40% of 650,000	(40% of 805,000) x 2
(7) – $ value of charge sales			

	A	B	C
(8) – Bulk of purchase *plus*	440,000	660,000	1,650,000
– Bulk of cost of goods sold	400,000	650,000	1,610,000
	840,000	1,310,000	3,260,000

Examiner's Comments

The common errors were as follows:

1. Failure to recognize the warehouse as a service department.
2. Acceptance of the given cash sales percentages as credit sales instead of determining reciprocal percentage balances.
3. Acceptance of sales delivery percentages given as percentages of total sales, rather than of department sales.
4. Failure to distribute delivery expenses properly and to give effect to the "per dollar of cost" wording in the final sentence.

PROBLEM 2

Final Examination, October 1954

Accounting III, Question 2 (18 marks)

The J. Co. Ltd. is insolvent and K is appointed to take legal possession of the company's assets at 1 Feb 1954.

The trial balance of J Co. Ltd. as at 1 Feb 1954 is as follows:

	Dr.	*Cr.*
Cash	$ 8,000	$
Notes receivable	90,000	
Notes receivable discounted		10,000
Accrued interest on notes receivable	3,000	
Accounts receivable	138,000	
Allowance for doubtful debts		7,500
Inventory	174,200	
Buildings and machinery	151,400	
Accumulated depreciation – buildings and machinery		56,540
Office furniture, less accumulated depreciation	5,000	
Land	30,000	
Marketable securities, at cost	20,000	
Prepaid insurance	1,400	
Notes payable		127,500
Accrued interest on notes payable		9,800
Accounts payable		296,000
Mortgage payable – interest at 6% per annum		60,000
Accrued interest on mortgage		1,200
Issued share capital – common stock 1,000 shares		100,000
Deficit	47,540	
	$668,540	$668,540

K ascertained that the following items have not been recorded in the accounts:

(i) Unpaid salaries and wages for the month of January 1954, totalling $2,900.

(ii) Municipal taxes for the month of January 1954, estimated at $865.

(iii) Mortgage interest for the month of January 1954.

It is estimated that:

(i) of the accounts receivable $41,500 are good and will be collected in full, $84,000 are doubtful and only 80% will be collected thereon and the remainder are uncollectible,

(ii) notes receivable totalling $12,000, together with the accrued interest thereon of $880, will not be collected,

(iii) two of the notes receivable discounted, one for $500 and one for $600, will not be paid when due. Only $400 will be recovered on the latter note but the former will be collected in full,

(iv) of the inventory, merchandise to the amount of $18,000 will realize $2,500; the rest will be sold to a jobber at 85c on the dollar,

(v) land, buildings and machinery are expected to be sold for $47,000, $30,000 and $20,000 respectively,

(vi) office furniture is expected to be sold for $800,

(vii) the insurance policies will be cancelled when the assets are disposed of and it is estimated that $200 will be refunded on account of the premiums,

(viii) the marketable securities have a market value of $28,000. They have been pledged as security for a note payable at $22,000.

Required:

A statement of affairs and a deficiency account as at 1 Feb 1954.

A SOLUTION

THE J CO. LTD.

STATEMENT OF AFFAIRS
as at 1st February 1954

Book Value			*Estimated Amount Available*	*Loss or (Gain) on Realization Estimated*
	ASSETS			
	Fully pledged assets:			
See buildings & machinery below	Buildings (deducted contra)	$30,000	$	$
	Partly pledged assets:			
$ 20,000	Marketable securities	$28,000		$ (8,000)
	Notes payable (see contra)	22,000	$ 6,000	

	Unpledged assets:			
8,000	Cash		$ 8,000	
90,000	Notes receivable	90,000		
(10,000)	Notes receivable discounted	10,000	68,000	12,000
		80,000		
3,000	Accrued interest on notes	3,000	2,200	800
138,000	Accounts receivable – good	41,500	41,500	
	– doubtful 80%	84,000	67,200	16,800
	– bad 100%	5,000		5,000
(7,500)	*Less* allowance for doubtful debts			
174,200	Inventory		135,270	38,930
94,860	Building and machinery	50,000		
	less above	(30,000)	20,000	44,860
5,000	Office furniture		800	4,200
30,000	Land		47,000	(17,000)
1,400	Prepaid insurance		200	1,200
	Estimated amount available		$396,170	$ 98,790
	Liabilities with priority (see contra)		3,765	
	Estimated amount available		$392,405	
	Estimated deficiency		50,595	
$546,960			$443,000	

Estimated payment 88.6c on the dollar

Book Value	LIABILITIES AND SHAREHOLDERS INTEREST		*Expected to Rank*
	Liabilities with priority:		
	Taxes payable	$ 865	
	Salaries and wages	2,900	
	Total (deducted contra)	3,765	
	Fully secured liabilities:		
$ 22,000	Notes payable (deducted contra)	22,000	
	Partly secured liabilities:		
60,000	Mortgage payable on building	60,000	
1,200	Accrued interest on mortgage	1,500	
		61,500	
	Buildings (see contra)	30,000	$ 31,500

	Unsecured liabilities:		
105,500	Notes payable		105,500
9,800	Accrued interest on notes payable		9,800
296,000	Accounts payable		296,000
	Contingent liabilities:		
	Notes receivable discounted	10,000	
	Less expected to realize	9,800	200
	Shareholders interest:		
100,000	Capital stock		
(47,540)	Deficit		
$546,960			$443,000

THE J CO. LTD.

DEFICIENCY ACCOUNT

1st February 1954

Deficit		$ 47,540
Estimated losses on realization of assets:		
Notes receivable	$12,200	
Interest on notes receivable	800	
Accounts receivable	21,800	
Inventory	38,930	
Buildings and machinery	44,860	
Office furniture	4,200	
Prepaid insurance	1,200	123,990
		$171,530
Less estimated profits on realization of assets:		
Land	$17,000	
Marketable securities	8,000	25,000
		$146,530
Additional liabilities		
Salaries and wages	$ 2,900	
Taxes	865	
Interest on mortgage	300	4,065
		$150,595
Less capital stock		100,000
Estimated deficiency		$ 50,595

Examiner's Comments

Many candidates lacked a knowledge of the form and content of the statements required.

PROBLEM 3

Final Examination, October 1954

Auditing I, Question 4 (15 marks)

During the course of carrying out his duties as the shareholders' auditor of several large companies incorporated under the Companies Act, 1934 (Canada), CA discovers the following unrelated information:

(a) Included in the accounts receivable outstanding are certain large contract accounts on which customers are disputing the balance owing. The management feels that the balances as set out in the company's records will be collected.

(b) In examining the bonds on hand, kept in a safety deposit box of the A Bank, it is discovered that two $1,000 Government of Canada bonds, which have been called as of 31st March of the current year, have not yet been presented for redemption and are still on hand at the year end date.

(c) The company holds a substantial investment in a similar business in a foreign country. As at the fiscal year end date the investment is sound and readily realizable. Between the year end date and the date of the auditor's report economic reverses force the foreign power to prohibit, for an indefinite period, the export of funds and securities.

(d) A company, which manages and operates buildings, has among its assets a large office building which has suffered a severe drop in value resulting largely from a change in character of the neighbourhood. In recent years, rental values have been insufficient to cover the operating expenses and the depreciation charge on the building. The company has advertised it for sale at a price of $6,500,000. The net book value as at the fiscal year end date was $13,765,432. This asset represents a large portion of the company's total assets.

Required:

What qualification or comment should CA include in his reports to the shareholders in respect of each of the above cases? If none is considered necessary, state why not.

A SOLUTION

(a) If the difference between the customers' and the company's figures are insignificant to the total accounts receivable, the auditor need not include any comment in his report to the shareholders because the amount in issue has relatively little bearing on the overall picture.

If, however, the difference between the customers' and company's figures is significant, the auditor should include a statement in his report along the following lines:

"Included in the accounts receivable are accounts totalling $...... which are disputed by the debtors. In the opinion of the management these balances will be paid in full.

"Subject to the realization of the above-mentioned accounts receivable, we report that . . . "

(b) It would not be necessary to report this fact to the shareholders because CA has verified that the assets are in existence and are the property of the company at the year end.

(c) Since the investment in the foreign company is substantial, the auditor should report this change in the affairs of the company to the shareholders. The relevant section of his report might be worded as follows:

"On the first of March 1954 the Government of .... announced that the export of funds and securities from that country was prohibited for an indefinite period. The present investment of $........, while still sound, is not presently realizable, nor can any income therefrom be transferred to this country. Of the $...... included in the statement of profit and loss as income on this investment, $...... cannot now be transferred to this country as had been anticipated.

"Subject to the foregoing comments on the investment in ...., we report that . . . . ."

(d) This situation would require comment in the report because the building forms a substantial portion of the total assets. The report might be worded as follows:

"The downtown office building included in the total of fixed assets at the year end at a net book amount of $13,765,432 has been offered for sale at a price of $6,500,000. No provision has been made in the accounts for the probable loss of $7,265,432.

"Subject to the foregoing comments on the probable loss on the disposal of the downtown office building, we report that . . . ."

BY PETER C. BRIANT, B.COM., C.A.

Current Reading

Assistant Professor,
McGill University

MAGAZINE ARTICLES

ACCOUNTING

"MANAGEMENT SERVICES BY LOCAL PRACTITIONERS," by Joseph L. Brock. *New York Certified Public Accountant*, September 1955, pp. 520-527.

Mr. Brock, an American C.P.A., advises local practitioners to treat the rendering of management services as separate formal engagements, not regarding them merely as an extension of routine audit work. This will avoid giving such services gratuitously and as a by-product of other services, he says. Mr. Brock also recommends that accountants establish a separate fee-scale for management services to avoid misunderstandings with clients. It is also necessary, he continues, to emphasize to the client that in the performance of such services the accountant is acting in an advisory capacity and will therefore make recommendations, not decisions.

Turning to a consideration of the kinds of management services the accountant can offer, Mr. Brock suggests that the small practitioner should select certain services for which he feels particularly well suited, and should devote special attention to the need of his clients in the areas selected. In his own practice he stresses three: budgeting and forecasting; improvement of accounting systems; cost determination and cost studies. The need to operate within the limits of the individual practitioner's training and experience is strongly emphasized; for failure to fulfil a claim could result in loss of fee, and, in some cases, the loss of a client.

As a concluding note, Mr. Brock compares the local accounting practitioner to the general practitioner of medicine. Thus, the former should be able to "diagnose and treat some of his patients' complaints, but must know when the services of a specialist are indicated. . . ."

AUDITING

"THE MODERN APPROACH TO INTERNAL AUDITING." The Association of Certified and Corporate Accountants, pp. 17.

This paper has been prepared by the Technical Research Committee of the Association of Certified and Corporate Accountants to focus attention upon the function of internal auditing as an instrument of management control. The growth of decentralization, with extended lines of communication, places a great strain on such control, the paper points out. The execution of policies and procedures thereby becomes increasingly difficult, and as part of the solution the basic concept of internal auditing has changed.

Within this broader context, the function and scope of the internal audit is considered. There then follows a review of the internal audit as a complement of the external audit.

Part III of the study deals with the basic principles of an internal audit program. A final section reviews the qualifications and training of an internal auditor, his line of responsibility, and the reports he should prepare.

Copies of this paper may be obtained from the Secretary, The Association of Certified and Corporate Accountants, 22, Bedford Square, London, W.C. 1. Price 5/-.

EDUCATION

"GOVERNMENT'S CHALLENGE TO THE PROFESSION," by Joseph Campbell. *New York Certified Public Accountant*, July, 1955, pp. 389-396.

Mr. Campbell, the Controller General of the United States, admonishes the accounting profession to develop a tradition of public service, following the principle long accepted by the medical and legal professions.

To foster this tradition, he urges the profession to recognize service in the government accounting branch in fulfilment of experience requirements for admission to the C.P.A. examinations. Such recognition, he continues, would enable the accounting branch of government to build a nucleus of outstanding staff by providing a corps of accountants at the college level.

As a measure to alleviate the shortage of senior accounting personnel in government, Mr. Campbell further suggests that a group of about 50 senior accountants from professional firms be assigned to Washington in the slack season. He would have the government pay them a salary commensurate with that paid by their respective firms, thereby limiting the contribution of sponsoring firms to the spread between each man's actual salary and the fee normally charged for the firm's services rendered by the man.

Whether or not one finds Mr. Campbell's suggestions acceptable, one cannot deny that he is on strong ground when he asserts that accounting principles and standards should no longer be given only passing consideration by the lawmakers, and that accountants should begin "to point the way rather than make notes on history . . . ."

LAW

"THE CIT CASE," by Saul Levy. *The Journal of Accountancy*, October 1955, pp. 31-42.

Mr. Levy, a noted writer on the auditor's legal liabilities, comments on the case of *C.I.T. Financial Corporation* v. *P. W. R. Glover et al.*

The plaintiffs asserted that the accountants knew their reports would be relied upon by the creditor; that this constituted specific identification and was, therefore, sufficient to support the claim of negligence. The trial judge upheld, however, the contention that the principle of law enumerated in the *Ultramares* case was applicable. Accordingly, defendants were found not liable for mere negligence since their reports were not prepared primarily for the benefit of the plaintiff but for the client of the accounting firm. This view of the law was upheld in the Court of Appeals.

An extremely valuable part of this article, useful to both students and practitioners, is the excerpt from the trial judge's charge to the jury. A review of the facts of the case is followed by an excellent enunciation of the principles of law involved.

MANAGEMENT

"A Management Approach to Risk Problems," *Dun's Review and Modern Industry*, July 1955, p. 49.

It is reported that 2854 businesses, with liabilities amounting to $121 million, failed in the United States during the first quarter of 1955. A tabulation indicates that neglect, fraud, inexperience, and disaster were the general causes of failure. Inexperience was apparently the major cause, accounting for 90.7% of all failures reported during the three month period. This would appear to emphasize the need for professional advice for those businesses unable to employ a full-time staff of experts. Within the category of inexperience, the largest single cause was inadequate sales, 49.7%, followed by competitive weakness, 20.6%. Receivable difficulties, excessive fixed assets, and inventory difficulties were other important causes of failure attributable to inexperience. Poor health, 2.7%, was the prime reason for a business being neglected, which in itself accounted for 4.8% of the 2854 failures. Fraud caused 2.2% of all failures, and irregular disposal of assets was the major item in this category. Disaster was the least important general cause of business failure, accounting for only 1.7% of the total. The most common kind of disaster was fire.

"The Thinking Behind the U.A.W.-C.I.O. Guaranteed Employment Plan," by Nat Weinberg. *Michigan Business Review*, March 1955, pp. 1-8.

Mr. Weinberg, Director of the Research and Engineering Department, U.A.W.-C.I.O., and Chairman of the U.A.W.-C.I.O. Guaranteed Wage Study Committee, answers critics of the guaranteed annual wage plan. This plan, he claims, is designed to encourage employers to stabilize employment by penalizing them when they fail to do so, and to safeguard workers against hardships imposed by "individual and collective managerial responsibility". He asserts that, in essence, the plan is aimed at steady work rather than pay for idleness.

The cost of the plan is said to be one of the main objections voiced by employers. In answer, Mr. Weinberg lists four ways in which he believes management may reduce costs attached to the plan or even eliminate them entirely: by stabilizing employment; by helping to achieve higher unemployment compensation benefits paid for longer periods; by helping to secure the establishment of a sound reinsurance scheme (an American device to help depressed areas); by supporting national economic policies designed to maintain full employment. He sees the temporary cost involved in the original creation of the reserve trust fund required by the plan as the only inescapable cost. (Mr. Weinberg compares this trust fund to corporate dividend equalization reserves. The intention is to provide in good years for heavy contractual liabilities which may arise in poor years.)

PROFESSIONAL

"Take Your Eyes into Account," by Samuel Gartner, M.D. *New York Certified Public Accountant*, April 1955, pp. 212-216.

How many accountants find themselves working in clients' offices where lighting is deficient? This should be avoided warns Dr. Gartner, a practising ophthalmologist, for poor

illumination is a major cause of eye strain and bad vision. Dr. Gartner urges all accountants to ensure that their working facilities provide good and sufficient light. This involves avoiding glass-top desks and glossy paper, and using a desk lamp which casts an even light over the whole work area. He offers a simple rule-of-thumb for all accountants: "Use the maximum amount of light in the room that will still yield a feeling of eye comfort . . ."

In those cases where an accountant finds himself working under adverse conditions, he would do well to follow Dr. Gartner's advice and point out to his client that the small cost of extra light cannot be compared to the importance and value of his accounting services. The fact that proper working conditions would add to his efficiency is an important additional consideration.

"HOW TO RECRUIT ACCOUNTING PERSONNEL," by Paul Kircher and Robert Buchele. *The Journal of Accountancy*, May 1955, pp. 54-59.

> " . . . *suffering from an apparent stiffness, an appearance of overpreciseness, and sometimes from an attitude of stooping to conquer* . . ."

This is how many university placement officials reportedly characterize representatives of some accounting firms who come to interview prospective employees.

The recruitment of able college graduates into public accounting is becoming increasingly difficult, according to Professors Kircher and Buchele. For many years business and government have offered positions financially more attractive than those offered by accounting firms. In addition, the broadening of university curricula has resulted in fewer students taking accounting as a major. It now appears, from the results of a survey, that unsatisfactory interviews with members of public accounting firms may be one additional reason that college students tend to steer away from public accounting as a career.

As a short-run measure to help alleviate the situation, the authors recommend that one member of a firm be assigned to administer the firm's recruiting policy. Nevertheless, they urge all partners to take a strong interest in the firm's recruiting activities. The need for a clearly defined set of personnel policies is stressed. They warn that any vagueness or hesitancy on the part of the recruiter to such questions as, "What is the firm's experience in the creation of new partners?" may well be interpreted by the student as a sign of weakness.

". . . What weight should be given to outside activities? . . . Should age be a factor? Marriage? Dependents? Should average grades or improving grades be the proper criterion? . . ." These are typical of the questions the authors think a firm should prepare in developing its standards for hiring personnel.

As a final word of advice, Professors Kircher and Buchele urge all firms to ensure that their recruiters receive some training in employment interviewing, with particular emphasis on interview techniques.

Responsibility for the development of a long-term solution to the problem of recruiting capable young men into public accounting as a career rests, as the authors point out, with

the profession. A sound public relations program is called for.

TAXATION

"THE ADVANCED TRAINING CENTER OF THE INTERNAL REVENUE SERVICE," by Charles J. Gaa. *Michigan Business Review,* March 1955, pp. 26-31.

In 1954, Congress of the United States authorized the establishment of an advanced training school for Internal Revenue agents in order to broaden their training "by providing them with the knowledge and thinking of leaders of the academic, professional, and business worlds . . ." The centre is located on the campus of a university and is operated by the university. Professor Gaa is director of the centre.

Applications for the course are accepted only from Internal Revenue agents who have had at least one year's experience in the service. In the event that a successful applicant voluntarily resigns from the service within three full years after completion of the course, he is required to reimburse the service for a pro rata part of the cost of training. One hundred applicants were admitted to the first course. Their range of experience extended from one to 12 years, with the majority having had four or five years.

Each applicant is required to take courses in accounting, auditing, finance, and income tax. In addition, one other course may be elected on the basis of previous education and experience.

On the basis of the first year's results the course has now been broadened to include other types of service personnel and the enrolment has been increased to 200.

BOOK REVIEW

Budgetary Control, by S. R. Cave. Gee and Co. Publishers Ltd., London, England, 1955. pp. 152. 25/-

This book, which describes a system of budgetary control and standard costing, stresses the importance of the accountant as an integral part of the management team and the role which he must play in the preparation and use of budgets and in the interpretation of operating results for management.

The volume is divided into three main parts:

1. *Factory administration* – A brief description of the functions of production executives who are responsible for supplying costing information.
2. *Budgetary control and standard costing of material, labour and overheads* – An outline in considerable detail of the various stages in introducing such a system. The author points out the necessity of providing timely operating statements for departmental heads and management (i.e. profit and loss statements comparing actual costs with established standards, break-even charts, etc.).
3. *Sales and capital budgets* – A brief outline of the use of these budgets in forecasting profits and cash requirements.

Now that systems of budgetary control are being used more extensively, this moderately priced book should be of particular interest to students of accounting.

C. F. WELLSTEAD, C.A.
Montreal, Quebec

NEWS OF OUR MEMBERS

Alberta

Collins & Hames, Chartered Accountants, announce the removal of their offices to 225 Examiner Bldg., Calgary.

Williams & Tanner and A. W. Bell, C.A. announce the merging of their practices and formation of the partnership of Williams, Tanner & Bell, Chartered Accountants, with offices at 209 British Canadian Trust Bldg., Lethbridge.

P. S. Ross & Sons, Chartered Accountants, and Alger, Baxter & Co., Chartered Accountants, announce the merging of their practices in Calgary. Ross P. Alger, C.A. and J. Lorne Baxter, C.A. will become partners of P. S. Ross & Sons. The combined practices will be carried on in the name of P. S. Ross & Sons with offices at 735 8th Ave. W., Calgary.

British Columbia

John K. Hancock, C.A. and Richard W. Keenlyside, C.A. announce the opening of an office for the practice of their profession at Ste. 204, 510 W. Hastings St., Vancouver.

Nova Scotia

J. A. Manning, C.A. has been appointed president and managing director of radio station CKCL, Truro.

Ontario

Goldhar, Beckerman & Soupcoff, Chartered Accountants, Toronto, announce a change in partnership name to Goldman, Beckerman, Soupcoff & Starkman, Chartered Accountants, and the admission to partnership of Bernard Kraft, C.A.

McDonald, Nicholson & Co., Chartered Accountants, announce the removal of their Toronto offices to Prudential House, 55 York St., Toronto.

Rogers & Rose, Chartered Accountants, 406 Mackey Bldg., Sudbury, announce the opening of a branch office for the practice of their profession at Blind River, Ont.

R. B. Taylor, C.A. has been appointed secretary of The Steel Co. of Canada, Hamilton.

R. A. Gourley, C.A. has been appointed assistant secretary of Julius Kayser & Co. Ltd., London.

Hilborn & Co., Chartered Accountants, 219 Bay St., Toronto, announce the admission to partnership of Richard B. Ellis, C.A. and Robert W. Hauch, C.A.

Quebec

James D. Ford, C.A. announces the removal of his offices to Rms. 4-5, 6573 Somerled Ave., Montreal.

Leonard D. Cordes, C.A. announces the opening of an office for the practice of his profession at Rm. 303, 1449 St. Alexander St., Montreal.

G. Dale Rediker, C.A. has been appointed chief accountant of Rolls Royce of Canada Ltd., Montreal.

Raymond Fortier, C.A. was elected treasurer of the Cercle Universitaire, Montreal, at that organization's annual meeting held recently.

CHANGE OF ADDRESS

Members and students who change their address and advise The Canadian Institute of Chartered Accountants of such change should also notify their own provincial Institute.

Periodic reconciliations of mailing lists are carried out but to ensure prompt receipt of all provincial Institute mail, it is essential that the secretary of the provincial Institute be notified directly.

INSTITUTE NOTES

MANITOBA STUDENTS SOCIETY

Fall Formal: The Chartered Accountants Students Society of Manitoba held their 27th annual fall formal at the Fort Garry Hotel on Saturday, October 29, 1955 and 316 persons attended. Refreshments were served in the lounge at 6:30 p.m., dinner was served at 7:00 p.m. and dancing to Harold Green's orchestra commenced at 9:00 p.m.

Mr. George D. Iliffe, C.A., Comptroller General of Manitoba, presented a bouquet of sweetheart roses to the Queen of the Fall Formal, Beverley Zeavin.

Accountancy Wins Track Meet: Beautiful weather greeted the University of Manitoba male track and field enthusiasts at Sargent Park and Accountancy's five man brigade smashed three records to capture top place for the second year running in this Inter-Faculty meet. Congratulations to Joe Myles, Garth McLeod, Norm Channing, Steve Slim, and Barry Kilfoyle.

Debating: The C.A.S.S.M. is completing arrangements to organize a debating league. The winning debating team will compete with the other faculties in the University of Manitoba debating sessions.

Varsity Varieties: The Accountancy students are going to enter a group of actors in a skit to be presented in conjunction with the other faculties of the University of Manitoba in a show captioned "Varsity Varieties".

Examination Ecstasy Dance: An informal dance will be held at the Roseland Night Club on December 20 or 21, 1955 to celebrate the results of the intermediates and finals. This is an excellent opportunity for the students to celebrate their happiness or drown their sorrows as the case may be.

ONTARIO INSTITUTE NOTES

Practising Members' Discussion Groups: The Toronto members interested in this project were placed in five groups according to their interests expressed in the questionnaire. The first meetings were held in late November under the direction of members of the committee who have also accepted the responsibility for convening the December meetings. Although each group is to elect its own executive at the December meeting and decide on its future program, the committee has arranged the dates of monthly meetings until April and has suggested the general topics as follows:

Group A — Office Routine and Management; Building Clientele;

Group B — Estate Planning, Taxation;

Group C — Audit procedure and standards, Financial statement presentation;

Group D — Machine accounting, Management accounting;

Group E — Taxation, Company law; Prospectuses and Securities Commission requirements.

Each group has over 50 members, in fact the maximum desirable, but if other Toronto practising members wish to join the project other groups can be organized. Please write to the registrar if you wish to participate.

Library: Three handsome leather bound volumes of pictures of the presidents of the Institute since 1883 have been placed in the Library.

ONTARIO STUDENTS ASSOCIATION

Toronto Study Groups: During late September and early October, study groups held in the C.A. Building, Toronto, were attended by a total of approximately 600 students. The lectures were well delivered

and in most groups there was active participation by the audience during the question period. In some cases an insufficient number had prepared their own solutions to prior years' papers as had been suggested by the Study Group Committee. Those who did not probably derived less benefit than those who had gone through the papers and were ready to discuss the difficulties they encountered. The Council of the Students Association invites comments on the effectiveness of the groups as a means of preparing for examinations. Letters should be addressed to the Council at 69 Bloor Street East, Toronto. If you have some ideas which you feel would improve next year's groups, now is the time to share your thoughts with your Council.

Winter Meetings Series – The November meeting drew a crowd of 90 students and C.A.'s to hear "An Introduction to Electronic Computers". The speaker was Mr. G. H. Cowperthwaite, C.A., Toronto.

On Tuesday, December 13, the second meeting takes place in the Lecture Hall of the C.A. Building. There will be another outstanding speaker and details have been circularized to students and practising firms. Reserve the date and come along. In fact reserve the second Tuesday of every month from now until May, to make sure you won't miss a single one of the series.

THE C.A. CLUB OF OTTAWA

The following executive has been elected for the 1955-56 season: D. J. McClellan, president; A. E. Foster, vice president; E. D. Lafferty, secretary; A. J. Frost, treasurer; E. D. Lawrence, R. Query, D. O. McLean, Group Captain E. H. Sharpe. L. Masse is past president.

NEW C.A. CLUB FORMED

Chartered accountants practising in the Eastern Townships have recently held a meeting to adopt a constitution and elect officers for the coming year. Over 30 members were present including some from Sherbrooke, Granby, Drummondville, Magog and Asbestos.

The following officers were elected for the season: president, Pierre Bachand; vice-president, Donald F. Watson; secretary, Philippe St-Jacques; treasurer, Marcel Savard; directors, Philippe Jolin, C. E. Belanger, Armand Hebert, Joseph Bessette and J.-Marcel Laverdure.

The editor welcomes information for this column. News of members and provincial Institutes' activities should be received by the 14th of the month to appear in the following issue of the journal.

OBITUARIES

Walter Scott Ferguson

The Institute suffered a very great and tragic loss on September 16, 1955, with the death of Professor Walter Scott Ferguson, F.C.A. Professor Ferguson died in London as the result of severe burns received in his room at Hotel London on September 10.

Mr. Ferguson was born at King City, Ontario in 1875 and was educated at high schools in Newmarket and Aurora. After five years as teacher and merchant he became accountant with a company in Bracebridge. He completed an accounting course with Shaw Schools and became a member of the Ontario Institute in 1907. In 1911 he moved to Toronto and became director of Shaw Schools Limited. In the following year he was appointed part-time lecturer in accounting at the University of Toronto. He retained the association with Shaw Schools until his death as director of accounting courses and after 1923 as secretary treasurer as well. In 1930 he was appointed Professor of Accounting at the university. Both at Shaw's and at the university Mr. Ferguson assisted the training of countless chartered accountants who continue to pay tribute to him as a great teacher.

During his career as teacher he wrote several text books in accounting and produced the courses used by the Certified Public Accountants Association of Ontario. In recognition of his service he was made a Life Member by the Certified Public Accountants in 1941. In 1950 he was elected an F.C.A. of the Ontario Institute for distinguished service to the profession.

While teaching Professor Ferguson also found time to practise as a public accountant with Seburn, Ferguson & Baker and to take part in the work of the Masonic Order and the I.O.O.F. He was elder of his church since 1902 and Clerk of the Session at Bloor Street United Church for 20 years.

To his wife and family and particularly his son, Gordon R. Ferguson, B.Com., F.C.A. (Chairman of the Board of Examiners-in-Chief), the members of the Institute extend their sincere sympathy.

Alfred Byron Shepard

The Institute of Chartered Accountants of Ontario announces with regret the death of Alfred Byron Shepard on Thursday, September 22, 1955 at Toronto. Born and educated in Toronto he joined the staff of the Metropolitan Bank after graduating from high school. In 1913 he became a student-in-accounts with Thorne, Mulholland, Howson and McPherson in which he ultimately served as an active partner for 36 years. He became a chartered accountant in 1916. He was always most interested in the affairs of the Institute and served on the Council for a number of years becoming president in 1937. He was also president of the Canadian Institute of Chartered Accountants. In 1929 he was elected a Fellow of the Institute for his distinguished service.

To his wife and family, the members of the Institute extend their sincere sympathy.

Thomas H. Frankling

The Institute of Chartered Accountants of Quebec announces with deep regret the death of Thomas Hudson Frankling on July 5, 1955, while on a visit to St. John's, Newfoundland.

Mr. Frankling was admitted to membership in this Institute in 1946, as a member

of The Corporation of Public Accountants of the Province of Quebec and was senior partner in T. H. Frankling & Co. He served as a public accountant in Toronto for over 30 years.

He was one of the original directors of the Toronto Board of General Accountants and served on the Dominion Board over a period of years and was Dominion president in 1926-27. Since 1928 he had been secretary of the Toronto branch of the General Accountants' Association.

The members of the Institute extend their sincere sympathy to the members of his family.

Kenneth Bowman

The Institute of Chartered Accountants of Alberta announces with regret the death of Kenneth Bowman. Mr. Bowman, who had been a member of this Institute since 1914, passed away on September 25 of this year, at the age of 80 years. He leaves a wife, one daughter, Mrs. S. R. Hendra of Edmonton, and three sisters in England; also one granddaughter.

To his wife and family the members of the Institute extend their sympathy.

John Rhodes

The Institute of Chartered Accountants of Quebec announces with deep regret the death of John Rhodes in Montreal on August 24, 1955.

Mr. Rhodes was born and educated in Preston, England, and arrived in Canada in 1910. He served four years with the Canadian Field Artillery in World War I.

He joined the General Accountant's Association in 1929, gaining his degree in 1930. He opened his own public accounting practice in 1937 and in the same year became secretary-treasurer of the General Accountant's Association, a post which he held until his death. He was admitted to membership in this Institute in 1946.

He was a member of Allenby Masonic Lodge.

To his family the members of the Institute extend their sincere sympathy.

Oscar Murray Hudson

The Institute of Chartered Accountants of Ontario regrets to announce the death, on August 18, 1955, of Oscar Hudson, F.C.A. At the time the Institute's oldest surviving member, Mr. Hudson died at Santa Barbara, California, where he had been living in retirement for many years.

He was admitted to membership on October 17, 1889, only six years after the founding of the Institute and practised for a time in partnership with Mr. Harry Vigeon, an early president of the Institute. Subsequently, in 1907, he established the firm of Oscar Hudson & Co., which continues in this name at the present time. Mr. Hudson retired from practice in 1923 but prior to this had served on the Institute Council. For distinguished services to the profession he was elected a Fellow of the Institute in 1919. In 1949, after 60 years of continuous membership, he was made a life member.

Mr. Hudson is survived by his wife and two daughters to whom the members of the Institute extend their sincere sympathy.

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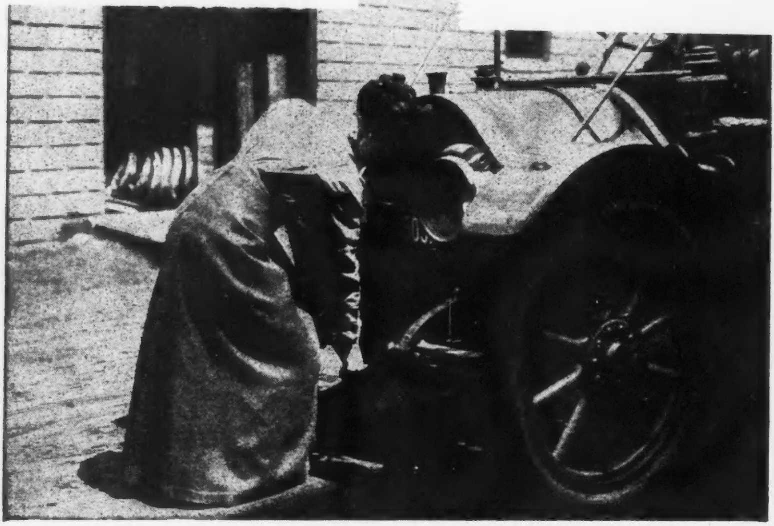

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